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# Nation's Business

# 90s

**Business's agenda for the 1990s gives direction on crucial issues for the economy. Cover Story, Page 19.**



PHOTO: T. MICHAEL KEYS

**Protests to proposed rate hikes reach George Haley of the Postal Rate Commission. Postal Rates, Page 36.**



PHOTO: © DON FURBER

**Managing risks helps firms cope with insurance costs, Henry Nozko Jr. and others say. Insurance, Page 58.**

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To help policy makers provide a strong industrial environment that will promote economic growth, the U.S. Chamber of Commerce has developed "A Business Agenda for the '90s." These wide-ranging reports examine fiscal, regulatory, work-force, and other issues.

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Washington, D.C.

# Editor's Note

## A Blueprint For The Decade Ahead



PHOTO: ©JAN NEWMITH-PICTURE GROUP

**Small Business Person of the Year V.E. "Barney" Roberts, and son, Kirby. Making It, Page 13.**



PHOTO: LARRY LEVIN

Our cover story seven months ago was titled "A New Energy Crisis?" A secondary headline on the February cover stated: "Growing demands and threatened supplies raise questions about the nation's ability to keep meeting its energy needs."

Noting that this country's reliance on foreign sources of crude oil had reached nearly 50 percent of consumption, the article said: "As U.S. production of oil declines, . . . the nation becomes more dependent on supplies from countries with long histories of political instability." The economic impact of Iraq's aggressive moves provided a grim validation of the points we made in this article.

And there is a direct connection between that article and this month's cover story, "A Business Agenda For The '90s," by Mary McElveen—pictured above—who specializes in public-policy issues for us. The agenda provides a workable blueprint for protecting economic gains of the past decade from adverse forces arising at home and abroad. A key element is the necessity of preserving a competitive marketplace free of excess taxes, regulations, and other government burdens that hamper the ability of American companies to meet the challenges of the '90s.

Energy is a classic example of how government controls work against the very consumers they are expected to protect. Misguided public policies that have prevented U.S. energy industries from development of our ample resources in oil, coal, and nuclear power have been major factors in making our economy vulnerable to curtailment of supplies from overseas producers.

The 1990s are the threshold decade of the 21st century. Whether we arrive at the millennium strong enough and prepared enough to meet its challenges will depend in large measure on how effectively we implement the agenda you'll find in this month's cover story.

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*Robert T. Gray*

Robert T. Gray  
Editor



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# Letters

## If Postal Pay Levels Were Known, All Would Apply

Re letters to the editor on Postal Service pay [July]: What other service job pays \$14.65 per hour and requires no post-secondary education?

I am a manager and stockholder of a small business; I have a B.S. degree and several hours of graduate business credit. [Postal workers] earn salaries larger than mine—along with four weeks of vacation!

If their salary and benefit levels were well-known by the public, we would have not only a public protest of rate increases but also an ample number of applicants for postal jobs at lower pay.

Joel Hahn  
Omaha, Neb.

## If At First You Don't Succeed, Plan Again

Craig Aronoff and John Ward are right about planning ["Why Owners Don't Plan," *Family Business*, June]. Yes, a

one-word summary would be attitude. Good planning is an attitude first and foremost. The real losers are the non-planners, even if conditions and results are good. Are they letting good get in the way of fantastic or possibly outstanding?

There's a lack of acceptance that a good plan is only a snapshot. It is never really in dry cement, but always in wet cement, always changing. Good writing and good planning are just like doing good at anything else: lots of prior attempts, failures, and successes.

John P. O'Donnell  
Ludington, Mich.

## Civil Or Uncivil Rights?

The 1990 civil-rights bill is the most damaging piece of legislation being considered in Congress ["Risks For Firms In Civil Rights Bill," June]. Although the focus is on quotas, the greater damage to our economy and society lies in allowing punitive damages.

Punitive legal suits would be the norm, not the exception. Plaintiffs and attorneys will rush to this new area like sharks in a feeding frenzy. American companies, both large and small, will be in continuous litigation as all disciplinary actions taken for poor performance by minority workers will be initial grounds for legal suits. Millions of dollars will be paid to settle out of court in order to curtail mounting legal costs.

Obviously, the costs of discriminatory litigation will be incorporated into the costs of products. Many fine, smaller companies that provide employment will be forced out of business through such legal actions. The end result will be higher prices for consumers, higher unemployment, and windfall awards for a few plaintiffs and their attorneys.

I fully support goals to eliminate actual discrimination, but I submit there are far more opportunists anxious to profit from race-sensitive issues and far fewer bigots in business than the media and the Democratic Senate are professing.

Christopher Fonville  
Executive Vice President  
Girsberger Industries Inc.  
Smithfield, N.C.

The civil-rights bill does not unreasonably disadvantage employers. It does provide discrimination victims a reasonable opportunity to prove discrimination in a court of law.

For 18 years, employers had the burden of showing that employment practices with a "disparate impact" (that operated to exclude minorities and women disproportionately) are required by business necessity. The Supreme Court's June 1989 decision in *Wards Cove Packing Co. v. Atonio* razed this



ILLUSTRATION: JIM STARR



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settled law and placed an extreme and unprecedented burden on discrimination victims by making them prove specifically the practice that ultimately led to discrimination.

The primary purpose of the Civil Rights Act of 1990 is to restore the basic civil-rights laws that were torn apart by Supreme Court decisions like *Atonio*.

If passed, the Civil Rights Act of 1990 will ensure that employment-discrimination laws are applied fairly and evenly to all Americans.

**Antonia Hernandez**  
President and General Counsel  
Mexican American Legal Defense  
and Educational Fund (MALDEF)  
Los Angeles

## Product Liability: An Omission

There was an omission in your article "The Maze of Product Liability" [June]. Connaught Laboratories Inc. has been a manufacturer and distributor of DTP vaccine for many, many years. Therefore, Lederle Laboratories is not the sole supplier of DTP in the U.S. In fact, among private-sector physicians, Connaught Laboratories has approximately a 35 percent share of the market.

**Sanford J. Kaufman**  
Connaught Laboratories  
Swiftwater, Pa.

[Editor's Note: The omission of Connaught Laboratories resulted from incomplete information supplied by an industry association.]

## Another Good Source Of Board Members

Your June Small-Business Update contained good advice for entrepreneurs to appoint a "board of outside directors," with recommendations to "recruit generalists, such as seasoned . . . corporate officers."

One excellent source for generalists is the internal audit staff of major corporations. Experienced certified internal auditors have more knowledge of how business works than most other employees in a company, especially if they have sound operational audit experience. In many firms, operational auditors are considered the internal consulting experts.

These internal auditors often are willing to share their knowledge with others and may consider serving on the board of a local firm.

Entrepreneurs should consider contacting a local chapter of the Institute of Internal Auditors and asking to insert a notice in the chapter newsletter or to talk with the person who coordinates job listings.

Chapter contact information can be obtained from the institute's international headquarters, in Orlando, Fla., at (407) 830-7600.

**Vance L. Jochim**  
Fountain Valley, Calif.

## Quick Note To Congress: Physician, Heal Thyself

Congress is outspending the annual increases in tax revenues at a rate that even puts the savings and loans to shame. Essentially Congress is distributing (legally) more funds than revenues as the S&Ls distributed (illegally) more funds than revenues.

In both cases, junk bonds and Treasury bills pay high-enough rates of return to cover the difference. This diverts capital from business expansion, research and development, job creation, and local economies.

It also creates additional pressure on local taxes as federal tax revenues cannot be reduced due to the treadmill effect.

Only when Congress learns to budget responsibly can it expect those financial institutions it regulates to behave more prudently to the benefit of all.

**Richard Berling**  
Executive Director  
Madison Area Rehabilitation  
Centers Inc.  
Madison, Wis.

One of the most frustrating things about being a small-business owner is our government. It does not assume a leadership role but rather a political role in deciding what legislation should be passed.

Our government always takes the easy road, moving with the lobbying forces that can spend the most money.

No sense of logic or leadership can put a positive view on the mandated-leave legislation that was pushed through the Congress. [Editor's Note: President Bush's veto of the legislation was sustained in the House.]

For a company to be productive, it must have a dependable work force. How can a company encourage profitability, competitive production, and a team concept when the government is more interested in promoting freeloading at the consumers' expense?

**Edward T. Downs Jr.**  
West Bloomfield, Mich.

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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## ENTREPRENEUR'S NOTEBOOK

# Cold Beer, Great Service

By Stan Clark



I was in my apartment one Sunday afternoon watching TV when my best friend, Steve File, burst in, excited about his idea for a business: "I'm going to open a bar in Stillwater. All the bars here are doing just great!"

It was May 1975, and I was living in Stillwater, the home of Oklahoma State University, where two weeks earlier I had graduated with a business degree. I told Steve that his idea sounded great. "Let's go in partners!"

We drove right away to a vacant, two-story stone building near the OSU campus, a place I thought might be big enough, affordable, and in a good location for a bar. The owner happened to be there, and we struck a gentleman's agreement for a lease. That day our little beer bar was born.

In the 15 years since then, the "jumpin' little juke joint" we called Eskimo Joe's has grown into a full-service restaurant still famous for icy beer, cheese fries, and super service in an easygoing atmosphere. It also has been a springboard for two more restaurants and a retail and mail-order business selling casual clothes that all started with Eskimo Joe's T-shirts.

Restaurants and sportswear weren't in our plans, however, back in 1975 when Steve and I put together about \$10,000—from personal savings and a bank loan—to open the bar. We got some used tables and chairs (nothing over \$5), remodeled the building's interior, and chose a name for our establishment. Steve insisted on "Eskimo Joe's" to underscore our claim that we had the coldest beer in town. We asked a graphics design student at OSU, Bill Thompson, for ideas for a logo. We liked his first rendering of an Eskimo and his dog so much that we bought it immediately—for \$35. We also ordered 72 T-shirts with the new logo. I didn't think we could sell that many in a year, but we sold out the first week!

We opened July 21, 1975, with rented tables and the \$5 chairs, and with the things our customers wanted—a great stereo for free tunes, and a new walk-in cooler for ice-cold beer. I set out to befriend every customer, because Steve and I wanted to give Eskimo Joe's a welcome-home kind of feeling. We turned a profit the very first month.

In 1978, Steve left Eskimo Joe's to try other businesses (he now runs a car dealership). I bought his half-interest and became sole proprietor. The staff and the revenues

expanded steadily through 1984, when Eskimo Joe's really grew up.

Seeing room in Stillwater for an upscale, fresh-seafood restaurant with a "see-and-be-seen" atmosphere, I decided to open Stillwater Bay Oyster Co. Around that time, Oklahoma raised the age for drinking beer from 18 to 21. Suddenly, most of Eskimo Joe's customers would be underage for beer, so I had kitchens installed in March. In September, Stillwater Bay opened its doors. Overnight, we were in the restaurant business, and our reputation depended on the quality of food and service provided.

In 1987, after Stillwater Bay had proved a success, I opened a full-service, Sonoran-style Mexican restaurant called Mexico Joe's. The idea was to serve excellent Mexican food in a fun atmosphere, and it worked.

That year we also expanded "Joe's Clothes." Our sideline of selling T-shirts had grown to brisk, over-the-bar

sales of sweatshirts, rugby shirts, caps, and other printed sportswear. So in September 1987 I opened a retail store and mail-order operation—Joe's Clothes World Headquarters, adjoining Eskimo Joe's. The product line was enlarged with items such as sweats, dresses, and children's clothing. We have an extensive catalog, and we ship worldwide.

Eskimo Joe's and the ventures that have grown from it are prospering for the same reasons that any business succeeds: We regard customers and employees alike as the firm's most important assets.

If you take a personal interest in your employees, they in turn will take a personal interest

in your company. And when they feel they have a stake in the success of the firm, it shows in their attitudes toward managers, fellow employees, and guests.

Our employees embrace the company philosophy that our customers—our guests—deserve the best service possible. All the marketing and promotion we do won't pay off if our guests are disappointed. We must strive constantly to offer great service, a great product, great value for our prices, and a good time for our guests—the best value of all. We want Eskimo Joe's to mean more than just a good burger or a great place to hang out with your college friends on a Saturday night. We want it to mean excitement and enthusiasm.

This past July, at our annual anniversary celebration, about 38,000 people converged on this little college town to see old friends and just help us celebrate. You can't ask for better customers—better guests.

If you're an entrepreneur who spends time with your guests every day, if you're going out of your way to make them happy, they'll go out of their way for you. **B**



PHOTO: BEN HOLT

Stan Clark outside Eskimo Joe's.

Stan Clark is a restaurateur in Stillwater, Okla.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.



# Small-Business Update

*Early intelligence to help you take advantage of the changing business climate.*

## DEMOGRAPHICS

### Hispanic Markets Are Easier To Reach

Small businesses can tap into the United States' burgeoning Hispanic market by advertising in Spanish, marketing experts say. This should be easier, they add, given the rapid growth in the U.S. of the Hispanic media. One trade group that explored outlets for reaching this market found that the number of U.S. television stations carrying Hispanic programming has jumped from 46 to 102 since 1983.

The figures, released by the Sporting Goods Manufacturers Association, of North Palm Beach, Fla., also show that in the same period, the number of Spanish-language radio stations went from 371 to 661, and Spanish-language newspapers grew from 94 to 158.

In a forum assembled by the New York-based Advertising Research



PHOTO: HERMAN KONGJAH-BLACK STAR

*The Hispanic market is growing and can be tapped by small firms.*

Foundation, Abbott Wool, a New York media director at Vitt Media International Inc., said reaching the Hispanic market successfully could mean "a real difference in profits."

## OWNERSHIP

### A "Sellers' Market" For Small-Firm Buyouts

Mergers and acquisitions for small businesses with annual revenues of \$1 million to \$100 million constitute a "sellers' market" driven by foreign investors—particularly the Japanese and the British, according to investment specialists.

David R. Hoods, a mergers-and-acquisitions consultant with The Geneva Companies, based in Irvine, Calif., says the hottest sales prospects are companies that are engaged in light manufacturing, wholesaling and distributing, and food processing. "There are more buyers than sellers," and the trend will continue through the end of 1991, despite a nationwide credit crunch, Hoods says.

Banks indeed are lending more sparingly, says Alan Wells, a small-business broker at Bollinger, Wells, Lett & Co. in New York. In addition, they have all but quit dealing in leveraged recapitalization.

"Those leveraged [recapitalizations] in which banks have a huge interest are being restructured to the banks' liking—very conservatively," according to Wells.

Foreign buyers, now 15 to 20 percent of small-business buyers, are taking up

the slack of a slow U.S. economy with their stronger currencies and greater tax advantages.

"Foreign buyers see America as a tremendous market for them," says Hoods. He adds, however, that the foreign investor "doesn't really want to run your business" and typically prefers to have the firm's founder or seller stay on board.

Big companies as well see the buying of smaller firms as a strategic way to build their business. "It's the fastest and smartest way to grow their business," Hoods says.

## CAPITAL

### Licenses For 37 SBICs Delayed By Moratorium

At least 37 small-business investment companies (SBICs), with capital of more than \$80 million, must wait until at least Sept. 29 for the U.S. Small Business Administration to issue their licenses. SBA Administrator Susan Engeleiter imposed a 90-day moratorium on all SBIC licensure in June. Her action followed Senate Small Business Committee hearings on the failure of one SBIC in Virginia and another in New York. Committee Chairman Dale Bumpers, D-Ark., called for a moratorium in May after finding that SBA's

auditing of SBICs had failed to foresee the firms' bankruptcies.

SBA, which says the bankruptcies could cost the government \$500 million, plans to review the federally funded, privately operated venture-capital firms. The National Association of Small Business Investment Companies, in Washington, said the moratorium cuts off a financing source at a time of tight credit for small firms.

## BANKRUPTCY

### Don't Ignore Marketing—Even In Chapter 11

Business owners scrambling to protect assets and slash their expenses in a Chapter 11 bankruptcy process should nonetheless maintain strong marketing and sales efforts, says Ronald J. Diorio, president of the Drakewood Resource Co., a New York management consulting firm.

"News travels so fast," Diorio says, that "customers and clients are naturally going to feel anxious about continuing their relationship with a company in Chapter 11." Companies should strive both to protect their current client base and to continue expanding their clientele during the restructuring, Diorio says.

"We know of at least one situation where the chief executive officer himself joined in with the marketing people in dealing with their clients," Diorio says. The CEO went on sales calls to talk to clients about the product and the business, "not so much to say, 'Please don't leave our company,' but to enhance their confidence" in the firm and its product.

Bankruptcy is a time, says Diorio, "when these valuable relationships need extra attention, not less."

## TECHNOLOGY

### Biotech Firms Team Up With U.S. Research Labs

New business opportunities with federal research labs were discussed at a technology-transfer seminar sponsored by the U.S. Department of Commerce. The seminar, the first in a series that will explore the commercial viability of current and advanced technologies, brought together more than 50 U.S.



## TECHNOLOGY

companies with experts from four federal research agencies.

"Few American companies have availed themselves of the vast resources in U.S. federal laboratories,"

Opportunities for joint ventures with the federal government exist in the National Institutes of Health, the Department of Energy, the Department of Agriculture, and at NIST in such areas as



PHOTO © DON HANERMAN-FLC INC.

**Biotechnology**, expected to be a \$40 billion industry by the end of the century, is a field offering entrepreneurial firms joint ventures with the government.

said Robert M. White, the Commerce Department's undersecretary for technology. He urged companies to "tap into" research programs for "long-range, high-risk basic research" opportunities that are lacking in the private sector.

Biotechnology will be a \$40 billion industry in the U.S. by 2000, according to the National Institute of Standards and Technology (NIST).

bioprocessing and protein crystallography.

These joint-venture programs and the commercialization of their results are critical to maintaining a competitive edge for the U.S. in high technology, White said. "While the U.S. still leads in fundamental biotech research and development, we are losing ground to Japan and Europe in introducing new products."

## FINANCES

## The Art Of The Excuse

Maybe those who are late paying their bills developed a knack for inventive excuses as kids at a time when "the dog ate my homework" was standard fare. According to Les Kirschbaum, president of Mid-Continent Agencies Inc., a commercial collection agency headquartered in Glenview, Ill., past-due customers have refined the art.

When collection professionals and credit managers get together, says Kirschbaum, they share stories they've heard from folks who haven't been paying their bills on time. Among them:

- The California customer who telephoned Kirschbaum's company to explain that he had put an overdue check into a mailbox that subsequently was swallowed when the ground opened during an earthquake.

- A debtor who placed his own obitu-

ary in a local newspaper and sent copies to his creditors. (He got caught.)

- The president of a Florida company who said a check could not be sent because his bookkeeper had been bitten by an alligator. (The check arrived later with a news clipping about a local bookkeeper who had indeed been attacked by an alligator.)

## EMPLOYEE BENEFITS

## How Do My Benefits Stack Up?

How do my company's employee benefits compare to my competitors'?

Business owners have answered that question over the past 40 years by examining charts and tables in the U.S. Chamber of Commerce's annual benefits survey. Now there's an easier way to use that data.

The Chamber and Decision Services Inc. have incorporated 1989 survey data

into a computer program called The Employee Benefits Analyzer. The user enters up to 34 categories of benefits and compensation offered by the firm, and the program compares that data with information from survey respondents according to company size, industry, and location.

"The program also gives users the ability to see what it would take to make their firms' benefits more competitive and to see where and how to reduce excessive benefits," says Martin Lefkowitz, a Chamber economist who prepares the survey.

The program will run on an IBM PC or compatibles with DOS 2.0 or higher and at least 256K RAM. The cost is \$75. Order by calling 1-800-638-6582. (From Maryland, dial 1-800-352-1450.)

## ENTREPRENEURSHIP

## What Makes A Firm A Winner? Or A Loser? One Winner Answers

On Page 13, you'll find the story of V.E. "Barney" Roberts of Iowa, who was named Small Business Person of the Year by the U.S. Small Business Administration. We asked him to list the reasons why businesses fail.

He named three. The first, he says, is a simple lack of knowledge: "It's surprising the people who go into business not knowledgeable of the product they're selling." The second: undercapitalization. The third—and most critical: poor bookkeeping.

He says: "You're losing money, but where are you losing money? You're making money, but where are you making money?" The survival of the business depends on the answers.

## INFORMATION

## Proposal Could Help Foster Small-Business Cooperation

The Small Business Administration would study the feasibility of a cooperative information system for smaller firms, under a provision of a bill approved by the House Small Business Committee.

The measure would direct the SBA to look into the establishment of an arrangement similar to the Business Cooperation Network of the European Community.

Rep. Andy Ireland, R-Fla., sponsor of the legislative proposal, pointed out that the European system helps firms with needs and capabilities that can serve each other—such as technology and financial know-how—find one another.

The Ireland provision was incorporated into the SBA authorization act for the fiscal year beginning Oct. 1. The bill has been sent to the House floor for a vote. ■





## **"My people think I'm cheap."**

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# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## TAXES/SPENDING

### Tax Issue Remains Far From Resolution

A White House-Congress agreement on a deficit-reduction package remains elusive despite President Bush's agreement to accept tax increases. Although the chief executive's concession was widely perceived as a major breakthrough, it did not guarantee an immediate resolution of the fiscal impasse. Democrats welcomed the Bush overture but ran into prolonged difficulties developing a unified package of taxes and spending cuts to take to budget-summit meetings.

Moreover, widespread opposition to tax increases continued among Republicans on Capitol Hill. An anti-tax statement endorsed overwhelmingly by House GOP members is expected to figure prominently in the fiscal-policy debate. That statement, sponsored by Rep. Dick Armey, R-Texas, is particularly significant because Democrats

have said they won't support tax increases unless a GOP majority in Congress does likewise.

With budget negotiations adjourned for the congressional summer recess,



PHOTO: T. MICHAEL REZA

**Rep. Dick Armey sponsored an anti-tax statement.**

some observers say prospects for developing a policy acceptable to the White House and various factions in Congress are fading.

## MANDATED LEAVE

### Business Scores Victory On Family-Leave Bill

In a major victory for business, legislation mandating employee-leave policies is officially dead in this Congress. The Democratic-controlled Congress failed to override President Bush's veto of the proposal. It would have required employers of 50 or more workers to give employees up to 12 weeks of unpaid leave per year to deal with the birth or adoption of a child or with their own or a family member's illness. Congress passed the bill in the face of the promised veto, which supported the business view that leave policies should not be subject to federal controls.

Firms that would have been affected foresaw particularly difficult problems in complying with a law that required them to grant leaves, recruit and train replacements, continue benefits for employees on leave, and fire the replacements when the workers on furlough came back.

The House fell 53 votes short of the two-thirds majority needed to override the president, a comfortable majority. But concern arose from statements by

sponsors of the measure that they would keep pressing for passage of mandated leave. House Speaker Thomas S. Foley, D-Wash., commented: "We're going to have this kind of legislation enacted, if not this year in this session, next year or the year after. It's inevitable."

## REGULATION

### Seat-Belt Rule Would Also Require Training Programs

Employers would have to establish safety-awareness programs for workers who regularly drive company vehicles, under a Labor Department proposal that also would require such drivers to use seat belts.

The awareness program, which would have to be taught by "a qualified, skilled instructor," would include vehicle familiarization, use of safety belts and motorcycle helmets, and the effects of alcohol and other drugs on driving.

Under the seat-belt rule, employers would have to require that all employees who drive or ride in motor vehicles on company business use seat belts.

## EMPLOYMENT

### Anti-Discrimination Bill Still Pending

A job-discrimination bill strongly opposed by business was one of the items that the Congress left unfinished at the start of its summer recess. The Senate and the House passed separate measures but deferred efforts to reconcile them until after Labor Day.

In fighting the measure, business points out that it would establish job quotas and stimulate multimillion-dollar discrimination suits against employers. While supporting the goal of non-discrimination in the workplace, the president has promised to veto any bill that would use quotas to achieve that end.

## NEW SERVICES

### Phone Lines For Business Input And Output

Reports on Washington developments affecting business are available daily via **The Washington Dial**, a phone service provided by the Legislative Action Department of the U.S. Chamber of Commerce. The number is 1-900-420-6001. **Opinion Line** lets callers take a stand on issues debated on the Chamber's weekly public-affairs television program, "It's Your Business." That number is 1-900-420-6002. Calls to either service cost \$1 for the first minute and 50 cents for each additional minute.

Workers driving motorcycles would have to wear helmets.

Public comments on the proposal can be sent to the Occupational Safety and Health Administration (OSHA) and must be postmarked no later than Nov. 9. Revisions in the proposal could follow the comment period. No effective date for a final rule has been set.

Fred Krebs, director of business-government policy for the U.S. Chamber of Commerce, said the OSHA initiative on driving represents "regulatory overkill." He said that driver-safety programs are essentially state concerns and should be left there. Krebs noted that the proposal could involve additional record keeping for businesses already carrying a heavy burden of federal paperwork requirements. ■



# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## How 1990's SBA Winner Built A Business From The Basement Up

Two years ago, health problems led V.E. "Barney" Roberts to reduce his day-to-day involvement in the company he founded, Iowa Office Supply of Storm Lake, Iowa. On this particular day, it is easy to see why that was a good idea.

"If I were to take Dad out on the floor this morning," says Roberts' son, Kirby, "he'd get gray and pound the desk." The reason: Sitting in the office-furniture section are three chairs that have been, as Kirby says, "abused."

"Company policy is that we don't take chairs out to the customer and let him try them for two weeks," Kirby continues. But someone on the sales staff breached that policy, and the customer sent the chairs back.

Barney Roberts, a trim, white-haired man of 68, has overheard this conversation. Now he interjects, in a low, anxious voice, "Who let them out, son?" Kirby, who is 41, laughs, but his answer is serious. He will pin down who let the chairs out, he says, because that person "is going to buy them."

Storm Lake—it really does sit beside a lake, a cool blue jewel in northwestern Iowa's green summertime vastness—is a pretty college town of about 9,000 people. Barney Roberts moved there in 1967 to open a retail office-supply store. He had started his company a few months earlier, filling orders from the basement of his home in Spencer, a larger town about 35 miles away.

Spencer, Roberts says, is "very aggressive. Storm Lake is a little more laid-back. It's a very quiet and restful town." It thus makes an odd headquarters for Roberts' company, which crackles with discipline and purpose. Says Kirby Roberts: "I

think our corporation is run closer to the military than the military itself is run."

Every morning, nine salesmen leave the Storm Lake store to seek orders and make deliveries in the surrounding counties. As they walk out the door to their cars, they confront a mirror with this sign on it: "Would you buy from this man?" To encourage customers to say yes, the Robertses not only require their salesmen to wear coats and ties but also subsidize their clothing.

"In the spring and the fall," Barney Roberts says, "every employee is entitled to go down and buy \$500 worth of clothes" at a Storm Lake store that gives them a 30 percent discount. In addition, Roberts continues, "I pay 30 percent, so \$500 worth of clothes only costs them \$200."

Some mornings, the salesmen with the shiniest shoes may get "funny dol-

*These cash registers are antiques, but everything else is up to date at Barney and Kirby Roberts' company.*

PHOTO: © JIM HEZMETRA-PICTURE GROUP



lars"—scrip that they can use at the end of the year to bid for big-screen television sets and other premiums in a company auction. Other mornings, scrip may go to the salesmen with the cleanest cars. As Kirby Roberts says, "It's a subconscious GI inspection."

The salesmen all drive white station wagons with the company's name and 800 number in brown lettering on the side. The cars belong to the salesmen; the company pays them for the advertising space.

According to the Robertses, their top salesman made \$70,000 last year. "He looks like he stepped out of a clothing store," Barney says. "His car is immaculate." The salesmen know that if they perform, they can rise in the company and own a piece of it; Barney and Kirby Roberts own 87 percent of Iowa Office Supply, but four key managers share the remaining 13 percent.

The company's sales totaled \$8.5 million in 1989, and it now has more than 70 employees. The Robertses have expanded by opening stores in Sioux City, on the west, and Mason City, on the east. Their salesmen fan out across most of the northern half of Iowa, and they have established beachheads in adjoining states.

It has been an impressive performance—impressive enough, in fact, that the U.S. Small Business Administration named Barney Roberts its Small Business Person of the Year for 1990.

Roberts' success is the more remarkable because he has won it in a state whose economy was in a shambles throughout the '80s. Iowa Office Supply has specialized in finding customers in rural areas that other businesses thought were barren. Even now, after opening branches in two cities much larger than Storm Lake, the Robertses focus on towns of 2,000 or so. When they moved into Sioux City in 1987, Kirby Roberts says, "the idea wasn't to go in and kill a



## MAKING IT

fat hog in Sioux City. The idea was to get closer to those small towns in South Dakota and Nebraska."

Barney Roberts, who had been a car salesman for 16 years, started selling office machines, furniture, and supplies in 1961; he was the only outside salesman for a store in Spencer. He found selling office supplies especially satis-

fying, he says, because he could help business people solve problems—by, for instance, introducing them to peg-board accounting, the pre-computer system that permits businesses to track sales and receipts more precisely.

Still, sales didn't come easily when Roberts went into business for himself. Kirby Roberts traces his father's en-

thusiasm for military-style discipline to those early years:

"When I first joined him [in 1971, after four years in the Air Force], we were scared. We had to do it right, because we didn't have the cash flow." Sometimes, he says, the bank would turn a deaf ear, and "tears would run down Mother's cheeks."

Barney remembers those tears: "We could have sat and held hands and cried to each other, and we'd have gone under. She'd say, 'You don't pay attention when I talk to you.' I'd say, 'I haven't got time to talk about it.' That sounds cruel. But it was true."

Today, it is Kirby's wife, Linda, who feels the pressure. As office manager, she must pay the company's own bills on time even as Iowa Office Supply spends \$750,000 moving its Mason City operations to a remodeled 12,000-square-foot building. The Robertses have borrowed only \$200,000 of the move's cost. "So, yes," Kirby says, "it's going to stress her a little bit. But we're quite proud that we can put that store together and retire that debt in a couple of years."

The Robertses are thinking ahead to their fourth store. They have picked a site—they won't say where—and a management team, even though the store is years from opening.

Barney Roberts will watch that expansion from the sidelines. "I had a triple bypass two years ago," he says, referring to his heart surgery, "and last year I had cancer of the prostate," which also was treated surgically. Both operations were successful, and, he says, "I feel better today than I have in years." But running the company is out of the question: "With the number of people we have and the size of the operation today, my health would not permit it." He is still chairman of the company, but now Kirby runs it, as president.

Barney comes to the store several times a week, and he and Kirby visit over coffee; Kirby consults him on major decisions, but Barney escapes, as he says, "the little personnel problems, the accounts receivable." Eventually, Barney fears, Kirby will fall prey to health problems like his own: "He's just like I am. He's a very emotional fellow, he's very high-strung, and he smokes two packs of cigarettes a day." And, of course, he is devoted to Iowa Office Supply—an addiction hard to break.

"I still love the corporation," Barney Roberts says, "and I'm still more concerned than my wife thinks I should be. When you've built something, and spent many years, and brought it from the bottom to what it is today, there's no way you can forget it."

—Michael Barrier

## Q: What's Black And White And Red All Over? A: A Hot Line Of Toys

In three years, Susan M. Vincent has used an obscure bit of knowledge about child development to build an enterprise with sales nearing \$1 million a year—even while working full time as a registered nurse.

ing Vincent had made for his first baby two years earlier. Vincent recalls: "I said, 'My goodness, you still have that old thing? Why don't you just draw another one?'" The new father told her, "You're the expert."

Vincent decided he was right. She invested \$10,000 to start her company, TOT Inc., in 1985. She and a team of artists began by designing stuffed zebras for babies' cribs. Then she added other black-and-white creatures and objects: killer whales, cows, dogs, rabbits, and a checkered stuffed taxicab.

The toys, trademarked under the name Baby's First Choice, fit into an infant's visual field—8 by 10 inches at a distance of 8 to 12 inches from the eyes. Babies'

eyes follow the sharp lines that separate darkness and light. The high contrast, Vincent says, enables a baby to latch on to the toys effortlessly. "The baby can start seeing without learning how to," she says. Better still, the stimulating angles and shapes cover familiar forms that parents feel comfortable giving to their babies.

Now TOT ships more than 2,000 units a week—most of them made by factories and home workers in New Hampshire—to toy stores, juvenile-product boutiques, and gift shops nationwide. The photogenic toys also sell well in catalogs, Vincent says.

Last year she introduced a three-plane crib mobile in black, white, and red, and it has been selling unexpectedly well at the Museum of Modern Art in New York and the Museum of Contemporary Art in Los Angeles. "We don't sell it as an infant's mobile" at the museums, Vincent says. "We sell it as an updated, avant-garde developmental product for the yuppie infant."

No matter how Vincent sells her toys, though, the core message is the same. She is teaching parents about babies' abilities, her toys, and why they go together. "I'm educating while I'm marketing," she says.

—Bradford A. McKee



**Susan M. Vincent**, a Washington, D.C., nurse, parlayed her knowledge of how infants see into a thriving toy line.

Vincent has been observing children during her 13 years of working with newborns at Georgetown University Hospital, in Washington, D.C. "Babies do not see pastel colors, like pink and blue, until they're nearly a year old," she says. An infant's retinal rods and cones, she explains, haven't developed enough to distinguish anything but positive and negative images—black and white—until the child is several weeks old. Then the infant sees its first primary color, red.

Even so, our culture dictates that infants' rubber duckies and plush bears come in colors like lime green and lemon yellow—colors that babies can't appreciate, Vincent says, until they're already old enough to know Mickey Mouse's name.

When showing off a new baby's faculties to its parents, Vincent would draw a black-and-white face on an index card to demonstrate how an infant responds to a stimulating image. Several years ago, a father came to Georgetown Hospital for the birth of his second child and pulled out a faded draw-





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## MAKING IT

## Why A Minority Businessman In Boston Says, "I'm Optimistic"

Last winter in Boston, a white man named Charles Stuart claimed that a black man had shot him and murdered his pregnant wife. The police made massive searches of the predominantly black neighborhood where the shootings took place, and a suspect was arrested.

Then it turned out that Stuart himself had killed his wife. In January, he

When he returned to Boston and earned his master's in public administration by attending evening classes at Northeastern University, he says, "I really didn't have a problem, trying to juggle graduate school and a full-time job and raise a child and be married, because I had this vision of what I could do with myself."

Washington worked for General

his Vanguard Parking Services. He hopes to increase his share by bidding for contracts in joint ventures with other small parking-management companies.

For a minority businessman to break into parking management would be difficult under any circumstances, Washington says, "but it's very, very tough trying to operate in the climate that exists in Boston today." He is quick to add, though, that his company's small size and limited experience would work against him "even in a good climate. So I have to make sure that my act is together." Since it is, he says, "the situation is perfect for me to take advantage of some of these opportunities."

That outlook seems to surface every time Ernie Washington offers a sober assessment of racial tensions in Boston or of the struggles his own business faces; he cannot help but shift to a brighter key before he finishes.

For example, he has already made some unsuccessful bids for management contracts, but he says making those bids was "good experience for me. We will be successful the next time around. I think the bidding process indicated to those prospective clients that we could do the job." When he is talking about Boston and his business, he says "I'm optimistic" over and over again—and he clearly means it.

For a small-business person, optimism goes with the territory. Time and again, when small-business people answer survey questions, they see brighter prospects for their own companies than for the economy as a whole. But when a minority small-business person says, "I'm optimistic," the words have a special resonance.

Many minority entrepreneurs provide not just goods and services but also a healing power that many American cities need. Ernie Washington, for example, has hired as attendants and cashiers young people who have had minor brushes with the law—who have, as he says, "crossed the fence"—but now want to stay straight.

Washington speaks of the "second-chance mentality that my company has," and of its "social-service component." His service in Vietnam is a plus, he says, because he sees "in young people's eyes and the tones of their voices" evidence of the same "trauma of war" that so many veterans experienced.

"I'm going to continue to remain strong as an entrepreneur," he says, "to see to it that I'm in a position to provide entry-level employment that can keep people motivated, keep people enthusiastic about themselves. The wages I can offer can turn a person's life around."

—Michael Barrier



Ernest Washington Jr., center, runs parking facilities with the help of Manuel Ramirez, Genevieve Stewart, Richard Ashby, John Jones, and Fatima Smith.

leaped from a bridge, an apparent suicide. His death led to widespread re-criminations, directed at the Boston police and at the city generally, because his lies had been so readily accepted. Many people across the country, black and white, concluded that race relations in Boston were severely troubled.

Whenever the social climate shifts in any city, small-business people feel it first. Dealing with the public, and hiring from the community, they become sensitive barometers of social change. What is it like for a black person to own a small business in Boston today?

Ernest E. Washington Jr., 43, grew up in Boston, in the Roxbury section—a heavily black neighborhood now, but one he remembers fondly as mixed black, Italian, and Jewish. He served in Vietnam—his best friend was killed there—and he describes his combat experience as "my source of energy."

Electric for four years, and then for two public agencies on transportation projects. Along the way, he developed expertise in designing parking facilities and controlling the revenue that they generate. In 1986 he struck out on his own, first as a parking consultant, and then as the contractor in charge of Northeastern's 1,600 parking spaces.

He started working under annual agreements with Northeastern; now he has a three-year contract, ending in 1992, and, he says, "I'm looking for a five-year deal the next time around." He has about two dozen full- and part-time employees. A Northeastern official says that the university may soon give Washington an expanded role in campus security.

Washington wants to win more contracts, but in Boston, as in other big cities, most parking spaces are controlled by companies much larger than



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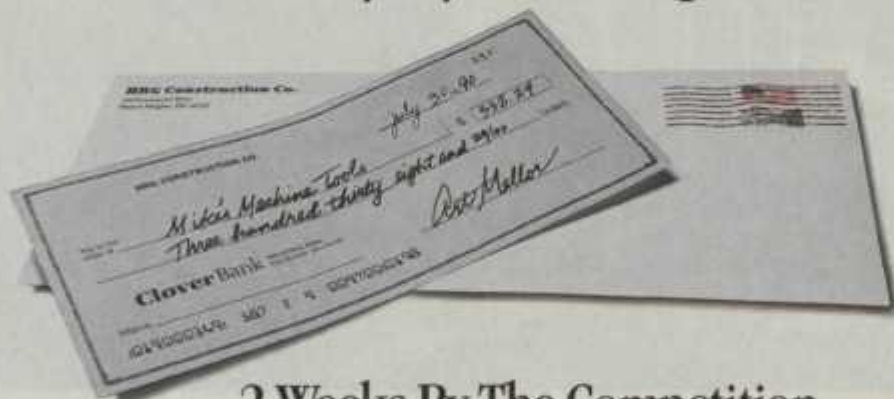
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# A BUSINESS AGENDA FOR

By Mary McElveen

**T**he American economy underwent a sea change in the 1980s. A return to free-market policies that emphasized initiative and minimized government controls brought about an era of record peacetime economic growth.

Encouraged by tax policies that stimulated investments,

entrepreneurship came into its own in the form of a record increase in the number of new and expanded small businesses. Many grew out of the technological advances that were themselves results of the American innovation and creativity that flourish best in a competitive environment based on market incentives

*(Continued on Page 20)*

# THE 90s



## A BUSINESS AGENDA FOR THE '90s

and rewards for individual success.

Attracted by the health and stability of the U.S. economy, foreign companies substantially increased their presence in U.S. markets.

The impact of those developments went far beyond U.S. boundaries. In an age of instant communications, residents of countries impoverished by socialism became more aware than ever of the rewards of free enterprise. Communist governments collapsed one after the other.

America throughout the '80s therefore not only enjoyed record prosperity at home but also saw its principles prevail in many countries that had tried socialism.

Now, the nation is entering another era of tremendous change. New challenges at home and abroad raise critical questions about whether the country in general and business in particular will be able to respond effectively.

The key question: Can the U.S. maintain its preeminent economic position in the face of the increasingly tough competition it faces in global markets?

The answer, unfortunately, is not as clear-cut as it would have been just a few years ago. Business is asking whether the nation's power centers, principally Congress and the White House, have a proper grasp of the essential policies required to keep the country moving in the right direction.

There is a sense of a lack of leadership, of an inability at the highest levels to come to grips with problems that beset the economy. (One measure of the growing disenchantment is a U.S. Chamber of Commerce poll showing that 74 percent of respondents want to reinvigorate Congress by limiting the number of terms that members may serve.)

Business leaders warn that the U.S. will either move forward with public policies that enhance the ability of American companies to out-innovate, out-market, and out-manuever their competitors abroad or it will be bowled over by them.

That warning results from what business sees as a resurgence of the policies that led to the economic sluggishness of the 1970s—tax increases, excessive spending, high interest rates, increased regulation, and proposals for government-directed industrial policies supporting selected industries.

That trend is a matter of major concern to top business leaders.

"If the policy makers think all these elements are not going to impact the American people, our economy, and our international competitiveness in the decade ahead,

they'd better think again," says James K. Baker, chairman of the U.S. Chamber of Commerce.

"One of the biggest decisions for a CEO is how to invest for the future," says Baker. "It's the culmination of these investment decisions that is at the very heart of the future of American business."

"What lawmakers need to understand is that CEOs can really be spooked by what's going on in Washington," says the Chamber leader, who is also chairman and chief executive officer of Arvin Industries Inc., of Columbus, Ind., whose principal products include auto parts.

With the economy slowing and the U.S. deficit ballooning as a result, Baker says, "the overall objective of Congress—for the benefit of all Americans—should be to provide a good industrial environment to encourage investments here and increase economic growth."

To assist Congress in reaching that objective, the U.S. Chamber of Commerce has developed the "Business Agenda for the '90s."

Its major components are:

- Fiscal policies that encourage job-creating savings and investment, provide incentives for work, and prevent the waste of resources.
- Ongoing regulatory reform to eliminate excessive government restraints that stifle the free-market system.
- Policies that permit development of productive work forces and avoid actions that lead to the elimination of jobs in the name of social progress.
- International-trade positions that foster open boundaries and reject protectionism.
- Support for improvements to roads, air-travel facilities, water-treatment facilities, and other public works that make up the nation's infrastructure.

Details of the background and recommendations to implement the components of the business agenda appear on the following pages.

"The issue is not whether the U.S. will dominate, for no country will dominate in the '90s," says the U.S. Chamber's Baker. "The question is whether the U.S. will seize the opportunities presented by a continuing globalization of commerce."

The answer will depend considerably on the business environment that Congress and the administration create, he says.

Urging the adoption of the business agenda, Baker comments:

"We would prefer to have a soft wind at our backs rather than a gale in our faces."



PHOTO © MICHAEL KEZIA

*The overall objective of Congress—for the benefit of all Americans—should be to provide a good industrial environment and increase economic growth.*

—James K. Baker, chairman,  
U.S. Chamber of Commerce



# Key To Growth: No New Taxes

# 90s

**W**hat we do with the federal budget this year will have a fundamental impact on our economy and society in general," says Sen. Phil Gramm, R-Texas, a key figure in the debate over federal fiscal policy. "It will define what post-Cold War America is going to be like."

If the nation is going to invest for the future and increase U.S. competitiveness, says Gramm, a co-author of the Gramm-Rudman-Hollings deficit-reduction law, "we can't keep doing what we've been doing."

What Washington has been doing is spending money much faster than it has been coming in, causing huge annual deficits that have triggered high-level support for tax increases.

As a result of the torrent of red ink over recent years, the federal debt is now more than \$3 trillion, three times what it was just 10 years ago.

The continuing annual deficits are in sharp contrast to the goals set when Congress enacted the Gramm-Rudman-Hollings law in 1985 with high expectations. Under its terms, the deficit was to be reduced gradually until it was eliminated in the 1991 fiscal year, which starts this Oct. 1.

Congress was unable to impose the required fiscal discipline on itself, however, and massive deficits have continued; the emphasis in budget negotiations between the White House and congressional leaders has shifted from less spending to more taxes.

President Bush joined those discussions after abandoning his long-standing opposition to tax increases, a position summed up in what had become one of the most famous declarations of recent times: "Read my lips: no new taxes."

The business agenda, however, rejects higher taxes as a solution to fiscal problems. And it has overwhelming support for that position. The U.S. Chamber's "Business Ballot" poll showed that 94 percent of the more than 8,000 respondents opposed tax increases, and only 4 percent favored



PHOTO: © GREG HARMON-FOLIO INC.

*President Bush surprised many of his supporters when he expressed a willingness to accept tax increases.*



PHOTO: © TERRY ASKE-FOLIO INC.

*For tax hikes: Senate Majority Leader Mitchell, House Speaker Foley.*

them, with 2 percent undecided.

Accordingly, the business agenda calls upon Congress and the administration to take concrete steps to restore fiscal order without raising taxes and, in doing so, better position the U.S. for the tough competition ahead.

Among the most immediate actions needed are steps to increase economic growth. A growing economy means more jobs, and more jobs mean more Americans producing and fewer depending on the public treasury. A grow-

ing economy is the most effective way of increasing tax revenues—the more money businesses and individuals make, the more income on which they pay taxes.

Even economists typically at opposite extremes are beginning to agree that certain public policies destroy the economy's potential. Those policies include relatively high interest rates, excessive government spending, unnecessary regulation, tight credit, and tax hikes.

Misguided fiscal policies undermine economic health by penalizing work and investment and by failing to provide incentives that will encourage growth.

Ever-higher taxes deprive businesses of the funds they need for the research, development, investment, and expansion that provide salaries and profits. Those taxes further diminish growth by canceling the rewards of harder work.

Thus, it is essential for Congress, with the president's leadership and support, to pass a pro-growth budget package for 1991, says the U.S. Chamber of Commerce in its business agenda.

That agenda lists fiscal-policy reforms in these areas as essential to pro-growth policies:

**Overall Spending.** Federal spending as a percentage of gross national product must be reduced. (GNP is the value of all goods and services produced in the country in a year.) Federal outlays averaged 18 percent of GNP in the 1950s. While spending as a percent of GNP peaked at 24.3 percent in 1983, it is still above 22 percent. The relationship is important because it shows the share of national resources absorbed by the federal government.

**Entitlements.** Growth of social programs must be slowed to bring federal spending under control. These programs now account for 43 percent of all federal outlays. The very term "entitlements" indicates the magnitude of the problem—it means that any individual who



## Fiscal Policy

meets the criteria under a given program is entitled to its benefits. These outlays include Social Security, Medicare, welfare, and government pensions. Entitlements constitute the fastest-growing part of the federal budget.

**Budget-Process Reform.** This must include line-item veto authority for the president and a balanced-budget/tax-limitation amendment to the Constitution.

The former is necessary because the present system encourages waste and special-interest spending. Under normal procedures, Congress sends to the president 13 complex appropriations bills covering all government departments, agencies, and activities. He must accept or veto each in toto.

**Capital-Gains Taxes.** These rates should be reduced to ease the excessive cost of capital that U.S. businesses face relative to competitors in other nations. These costs hamper investment at home and put U.S. companies at a disadvantage in world markets. The lower chart at right compares the capital costs that U.S. companies face with costs of businesses in Japan, one of this country's toughest trade competitors.

In pressing for a reduction in capital-gains taxes, the U.S. Chamber notes that lower rates have traditionally meant higher tax collections because of the increased economic activity stimulated by the lower levies. Conversely, higher rates have dampened tax collections because investors choose not to realize gains that are to be taxed at higher levels.

**Tax/Spending Tradeoff.** Spending reductions must be a prerequisite to any tax increases. If there is no such requirement, taxes will be increased but spending will not be cut. While the current fiscal-policy discussions between the White House and Congress are to a great extent focusing on tax revenues as a means of closing the budget gap, the record shows that higher taxes have inevitably meant higher spending.

Those fiscal reforms detailed above are particularly critical because of depressed revenue collections resulting from the current economic slowdown.

To regain economic momentum, the business agenda also urges the Federal Reserve Board to decrease interest rates as a stimulus to business growth. U.S. Chamber economists have called the Fed's restrictive policies on interest a major cause of the slowdown.

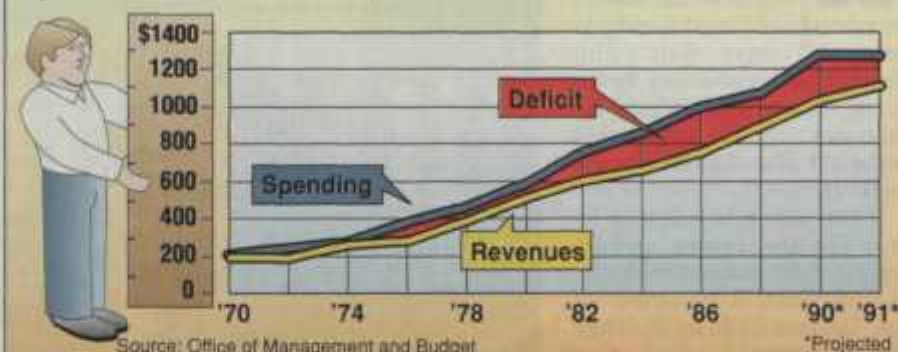
At the same time, the Chamber is urging Congress to take these steps to spur investment and economic growth:

- Extend permanently the 20 percent research-and-experimentation tax credit due to expire Sept. 30. The Chamber believes it is essential that the credit be made permanent to encourage companies to invest in the long-term research and experimentation essential

Service Code. These rules make it financially prohibitive for many owners of family firms to pass down to their heirs the businesses in which they often have invested heavily.

- Eliminate the double taxation of dividends to create a greater incentive to invest. Income that a company eventually pays in dividends is taxed both to the company and to shareholders.

## Growth In Spending, Revenues, And Deficit (In Billions Of Current Dollars)



CHARTS: MARCY WILLIAMS

*No matter how high federal revenues rise, as the chart above demonstrates, government spending typically goes up even higher.*

## Cost Of Debt Capital For Plants

1988



if the U.S. is to remain a world leader in technology development.

- Roll back the Social Security payroll tax on employers and employees, which was increased again Jan. 1 despite massive surpluses in the retirement system's trust fund. The Chamber views a rollback of the Social Security payroll tax as a way to free additional funds for investment. While supposedly used to build surpluses, taxes collected beyond immediate needs are in fact being used for current federal spending and replaced in the Social Security trust fund with IOUs.

- Repeal the estate-freeze rules in Section 2036(c) of the Internal Revenue

- Implement President Bush's Family Savings Account proposal, offering incentives for long-term savings by individuals. More savings would mean more money for investment.

In a related effort, the U.S. Chamber is leading the opposition to the U.S. Postal Service's proposal to raise mailing rates by nearly \$8 billion, which would add more than \$6 billion to business costs. Rate increases would average nearly 20 percent. (See the story on Page 36.) The Chamber is insisting that the Postal Service must reduce its expenses, including wage levels far above the private-sector average, before it would be justified in seeking such an increase.

The Chamber strongly opposes collecting taxes for purposes other than those specified as the reasons for levying them.

Other initiatives vital to increasing U.S. competitiveness and improving the nation's fiscal responsibility include major reforms in the financial-services industry. Those reforms must include changes in the deposit-insurance system to ensure that financial catastrophes like the savings-and-loan situation do not recur, according to the Chamber.

All of the fiscal-reform proposals of the business agenda are important, but in the present political atmosphere, the most immediate need is preservation of the pledge that business supported from the outset and continues to support, as evidenced by the "Business Ballot" response—no new taxes.



# Don't Retreat On Deregulation

# 90s



PHOTO: © CRAIG AURNESS—WEST LIGHT

**Airline-industry reregulation would hurt business and consumers.**

**G**overnment regulation, one of the most efficient disincentives to economic growth, peaked in the anti-business climate of the 1970s and faded in the pro-enterprise environment of the '80s. But it looms again as a major threat to U.S. competitiveness.

Business costs for complying with federal regulations are heading toward new heights in this decade. And moves under way in Washington would impose vast new costs on business.

Some examples:

- Clean-air legislation that President Bush is expected to sign will cost U.S. companies—including thousands of small businesses—a minimum of \$21 billion annually on top of the \$32 billion that companies already spend yearly for air-pollution controls.

- Government controls continue to restrict development of new sources of energy at a time when the U.S. depends on imports for half of its oil supply, and much of that is in the volatile Middle East.

- Many small businesses will incur substantial costs to comply with new requirements for accommodating the disabled. These firms will have to modify their facilities to accommodate

handicapped customers and employees.

- Separate bills aimed at tightening rules on job discrimination have been passed by the Senate and the House, and efforts to agree on a single bill are under way. The legislation would encourage lawsuits over employment practices and would drastically increase

*Reregulation could  
be "costly [and]  
counterproductive."*

—Richard L. Lesher, President,  
U.S. Chamber of Commerce

the burden of legal costs that business is already incurring to meet federal mandates.

The trend toward reregulation is evident in the increasing numbers of government workers employed by federal regulatory agencies and in the rising budgets of those agencies. (See the chart on Page 26.)

The Bush administration "is on a

[regulatory] growth trajectory that looks similar to budget trends from the Carter years," says a new study detailing the resurgence. Under Bush's 1991 budget proposal, spending at federal regulatory agencies would rise to its highest level ever—to \$12.25 billion, according to the study, by writer and analyst Melinda Warren and Kenneth W. Chilton, associate director of the Center for the Study of American Business, at Washington University, in St. Louis.

The budgets for regulatory agencies would rise 9 percent in nominal terms over fiscal 1990 and 4 percent after adjusting for inflation. The number of workers employed at regulatory agencies would rise by 4,300 over the 1990 level—to 113,300. Employment in 1991 would be just 5,500 workers short of the 1980 peak, which was the final year of the Carter presidency.

Under then-President Reagan, the regulatory bureaucracy decreased by 15 percent from 1980 to 1985, then increased about 1 percent a year through his second term.

**D**isturbed by the regulatory revival and the speed with which Congress is passing legislation requiring new regulations, the U.S. Chamber says the administration and Congress must reverse course. The world's largest federation of companies and business associations says the new regulatory fad is completely out of synchronization in a nation seeking to increase its competitiveness.

In a letter to President Bush, Chamber President Richard L. Lesher urged the president to reaffirm the deregulation commitment he exhibited as chairman of the Reagan administration's Task Force on Regulatory Relief. Lesher told Bush that initiatives to reverse the reregulation trend would send "an important signal to those in the agencies and Congress."

Another business-agenda goal under the general heading of government actions that impede economic growth is product-liability reform. The objective in this area is a uniform federal statute that will establish equitable standards for determining whether products are defective and under what circumstances the makers may be liable. The need for this legislation arose from the



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## A BUSINESS AGENDA FOR THE '90s

## Regulation

current situation in which manufacturers face lawsuits under 50 different state laws and are often the target of multimillion-dollar judgments on the flimsiest of grounds.

The advantages of freeing business from excessive regulatory controls are well documented. Studies point to the success of deregulation in the telecommunications, airline, railroad, and trucking industries, for example. If Congress and the president are serious about the future competitiveness of U.S. companies, they should use these analyses as the bases for further deregulation.

But Congress is headed in the other direction, as indicated by the legislation cited on the preceding page. In addition to those measures, many bills that would impose new regulatory burdens on business are pending. Among the measures that would have a broad impact on business are bills to limit the Office of Management and Budget's control over business-paperwork requirements, to strengthen consumer-safety regulations, restrict pension plans, and impose new environmental requirements on business.

In recent months, Bush has shown some signs of increased sensitivity toward the reregulation trend and rising costs of U.S. companies. For example, he asked Vice President Dan Quayle to redirect the Council on Competitiveness, a White House policy group under Quayle's purview, to focus on regulation and its impact.

In June, Bush vetoed a bill to require employers to provide a specified amount of annual family-related leave to employees, an action widely praised by business. With another veto the same month, he prevented Congress from imposing new regulations on the acquisitions of major railroads by non-railroad companies. Nonetheless, Bush must do more to reverse the reregulation trend, the Chamber says.

The full cost to society of regulation is "far greater than the government's expenditures to administer the new regulations and the direct costs to businesses, consumers, and taxpayers of complying with them," according to Steve H. Hanke, an economist at the Johns Hopkins University in Baltimore, and Stephen J.K. Walters, an economist at Loyola College in Baltimore.

The indirect costs of regulation include diminished productivity growth, slowed technological innovation, and harmed international competitiveness, the authors said in their 1990 study.

According to Hanke and Walters,

more than 30 percent of the decline in the growth in manufacturing productivity during the 1970s could be attributed to the Environmental Protection Agency and the Occupational Safety and Health Administration.

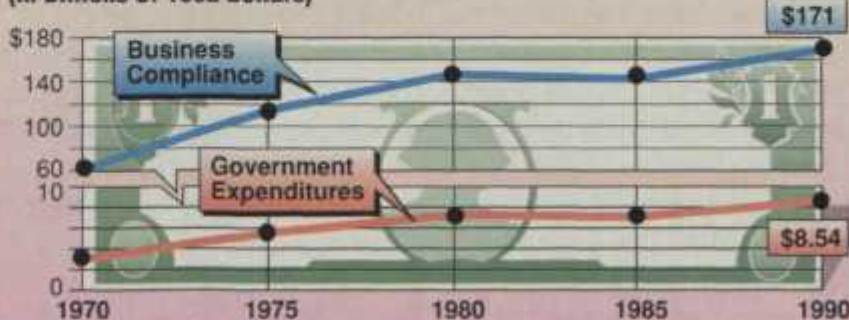
The U.S. is also failing to keep pace in nondefense research and development, an indicator of future innovation. The U.S. is spending substantially less

number of new drugs approved dropped to 16 annually.

The slower rate of new-drug introduction did not surprise Congress; indeed, it was one of the lawmakers' goals in amending the law. While the statute kept potentially effective drugs off the market, it did not affect the introduction rate of ineffective drugs, say Hanke and Walters.

## The Cost Of Regulation

(In Billions Of 1982 Dollars)



Source: Center for the Study of American Business, Washington University

Costs of regulation for government as well as for business have been rising since the 1980-85 period of stabilization.



Source: Center for the Study of American Business, Washington University

annually as a percentage of GNP than are West Germany and Japan.

The pharmaceutical industry provides a good example of the negative effects of regulation. Between 1950 and 1962, the Food and Drug Administration approved an average of 46 new drugs a year. From 1962 to 1975, following the 1962 amendments to the Food, Drug, and Cosmetic Act, the average

Other studies show that as a result of the increased regulation, the cost of developing new drugs has doubled since 1962, the U.S. drug industry has become more concentrated and less competitive, and higher prices of drugs have resulted. A host of studies document similar regulatory effects in other industries. The net result: Advances are stymied to the detriment of the American public and U.S. competitiveness, with few, if any, positive results.

If the trend toward unwarranted regulation is not reversed, wrote Hanke and Walters, "the U.S. will suffer a slowdown in productivity growth and losses in its international competitiveness." The economists say that a "second-generation regulatory-reform movement" must begin. The U.S. Chamber is leading that movement.

The business agenda calls for an end of the trend toward reregulation and for restoration of the policies and the framework needed to continue the deregulatory movement of the 1980s.

As Chamber President Leshner told President Bush of the present trends: "As I observe the activities of Congress and the agencies, I have become even more convinced that the vast majority of the regulations now being promulgated will be costly, counterproductive, and ineffective. ... I urge you to take steps to apprise the bureaucracy of the fact that your administration has no intention of backing away from ... regulatory-relief policies."



# Preserving Jobs And Productivity

# 90s



PHOTO: © GARY PALMER—THE STOCK MARKET

*Improving the quality of education is a major goal of the business agenda.*

**T**he work force and workplace will undergo revolutionary changes in the 1990s, truly testing U.S. companies' competitiveness. Employers will face increasing difficulty in finding qualified workers and will have to cope with unending threats of further government intrusion into employer-employee relationships. Both of these problems will impose sharply higher costs, threatening productivity and profitability.

The heightened difficulties in recruiting, motivating, and retaining workers are caused by two principal factors—a lower pool of entry-level workers, as a result of the decline in the birthrate that began in the late 1960s, and a sharp drop in the quality of education.

According to a major forecasting firm's projection of 60 key trends for the decade, U.S. businesses will have no choice but to hire a million new workers a year who cannot read, write, or count, and 30 million current workers will need massive retraining to keep pace with changing job requirements.

Among other major shifts:

- Seventy-five percent of new workers will be women and/or immigrants from widely diverse cultural backgrounds, which will pose major new

challenges for managers.

- A greater percentage of workers will have little long-term attachment to their jobs.

- Workers will demand a greater variety of employee benefits designed to suit their individual situations. Costs of all benefits will continue to escalate.

*The worry [about the skills gap] is spreading.*

—Robert Martin,  
U.S. Chamber of Commerce

- There will be a fundamental mismatch between job requirements and worker skills.

These projections by Nathan Associates Inc., a Washington, D.C.-based economic and management consulting firm, are causing many business people to re-evaluate the use of traditional management techniques. Many of the changes needed to deal with the work-

place challenges of the '90s will require extensive adjustments by companies, and—according to Jeffrey H. Joseph, vice president/domestic policy for the U.S. Chamber—extensive restraint by Congress.

The major question for the lawmakers is whether they will retreat from their determination, most evident in recent years, to micromanage the workplace through legislation. In April, for example, the minimum wage was increased 13.5 percent, and there will be an additional 10.5 percent rise next April. The U.S. Chamber forecast that this increase would eliminate jobs, and that projection is being borne out, the business federation reports.

**I**n terms of the work force, the business agenda covers two major concerns:

- Ending congressional efforts to dictate wages and other terms of employment, including the type and extent of benefits.

- Reforming the educational system to enable it to equip students for jobs.

As far as congressional intrusion goes, employers will have more than enough to deal with without the "help" of Washington.

A recent survey by Towers Perrin, a New York-based management consulting firm, and the Hudson Institute Inc., an Indianapolis-based public-policy research center, found that although American business managers know about the projected work-force changes, most have yet to plan for them.

The Towers Perrin survey of 4,000 companies in all industry sectors found that managers knew little about the projected skills gap, though the bottom-line implications of such a trend could be staggering. Nathan Associates projects that the cost to American business for more worker training will rise from about \$30 billion annually now to \$80 billion by the end of the 1990s.

The U.S. Chamber has launched a major initiative to help business overcome problems stemming from inadequately trained workers. It has established the Center for Work Force Preparation and Quality Education to press for the goals indicated in its title. Robert Martin, vice president and executive director of the center, says that



## A BUSINESS AGENDA FOR THE '90s

## Work Force

the number of business executives concerned about the skills gap is growing. About seven years ago, he says, "there was a very small cohort of executives, mostly those operating in the international arena, who were concerned about the skills gap. Today the worry is spreading from larger companies to small and medium-sized firms. The message of the human-resources managers is finally working its way up. Whereas a few years ago 10 people were being interviewed to fill an entry-level job, today 20 people are having to be interviewed."

The center is pressing for education reform at the state and local levels by working through state and local chambers of commerce. For state and local reform efforts to succeed, however, President Bush must be bold and consistent in his calls for improvements, Martin says.

**T**he statistics supporting the call for bold presidential leadership are numerous and convincing:

- The U.S. ranks low in academic achievement among industrialized countries.

- An international comparison of math and science skills shows American 13-year-olds scoring lowest among the industrialized nations.

- Most 17-year-olds in U.S. schools cannot write a good letter requesting a job, solve everyday math problems, or use a bus schedule.

- A recent study of math and science proficiency among 13-year-olds in 13 industrialized nations showed the U.S. ranked ninth in physics, 11th in calculus and chemistry, 12th in geometry and algebra, and last in biology.

- Sixty-one percent of U.S. high-school students do not go to college.

And the list goes on.

"We simply must make education reform a top national priority, or we won't have the workers we'll need to be competitive in the next several years," Martin says.

Other work-force and workplace trends will demand a high level of business flexibility. According to the study by Nathan Associates, offering family-oriented benefits will become a major competitive strategy, which "will turn the corporate human-resources world upside down. Benefits will be subjected as much to a new test of creativity and flexibility as to the old test of simple cost containment, as highly skilled workers shop aggressively for the best menu of options."

Attempts by Congress to require companies to pay for specific benefits

for workers will only hinder the ability of U.S. companies to respond to such shifts, says the U.S. Chamber.

Yet proponents of legislation to require companies to provide a specific amount of annual family-related leave to workers have already said they'll continue to push for such a measure until one becomes law.

Other attempts to mandate benefits

time by small firms. The Chamber is urging that insurers, who have made similar recommendations themselves, change their underwriting practices to:

- Accept all employees when providing group coverage to a company.
- Guarantee renewal of a group at pooled rates once the group has been accepted.
- Impose no new limits for individ-



**Health-insurance costs** for workers—reflected in insurance premiums—are growing more troublesome for U.S. companies striving to remain competitive.

are likely as well. One of the most serious threats is in health coverage for workers. A group of lawmakers continues to press for a scheme to force all employers to provide this most costly of all benefits to all workers and members of their families. They are pushing the scheme even though a Massachusetts plan to mandate health-care coverage is on the verge of collapse even before it takes effect as the true cost dimensions become apparent.

Such proposals would do nothing to deal with the medical-care inflation that has put health insurance beyond the reach of many businesses, particularly smaller firms.

The private sector is making a strong effort to bring those costs down, however. The U.S. Chamber, for example, is pressing for Congress and the administration to take cost-reducing actions step by step as consensus develops in any given area. A consensus is already developing on insurance-market reforms for small business. These reforms could make insurance more available and affordable for small companies and result in expanded coverage for a portion of the nation's uninsured—those who are employed full

time with pre-existing conditions when they change jobs or coverage if they have been continuously insured.

- Provide a pooling mechanism to spread the risk of insuring small firms among participating insurers and health-maintenance organizations.

The business agenda also calls for an end to state policies of requiring specific levels of coverage in company-financed health coverage. Such mandates contribute in a major way to the sharp increase in medical costs and the extent of the lack of health-care plans for some employees.

Meanwhile, proposed federal health-benefits legislation continues to pose a serious threat to companies. The debate on this and other benefit issues is expected to heat up again next year.

With health-care costs already a top problem for business, the business agenda views legislation to mandate still further costs in this area as one of the most anti-competitive steps the government could take.

Fundamentally, the business position is that companies are far more qualified than government to deal with the top priorities of the workplace—education and terms of employment.



# Prepare For A Global Market

# 90s



PHOTO: ©CHARLES KREBS—THE STOCK MARKET

**Increased trade competitiveness for U.S. firms is a fundamental goal.**

**T**he U.S. is the most formidable country in the world once it sets its mind on doing something," says William T. Archey, vice president/international for the U.S. Chamber of Commerce. "And what it needs to do right now is to focus its attention on international competitiveness and the importance of trade to the country's economic well-being."

The increasingly critical nature of trade to the U.S. economy is evident in one set of statistics—the annual trade balance. It represents the difference in value—in black or red ink—between U.S. exports and imports.

The United States enjoyed substantial trade surpluses with other nations for most of the three decades following World War II but in recent years has consistently imported far more than it has exported.

U.S. exports have increased more than fivefold as a percentage of gross national product following World War II—from 2.6 percent in 1945 to more than 14 percent in 1989—but other nations have made even greater progress.

American exports clearly have the potential to grow further as new international markets develop and commerce becomes increasingly global.

To a great extent, growth in exports will depend on U.S. companies' success in developing international markets and producing better-quality goods and services than their competitors, but no company will achieve its potential unless the federal government takes further steps to boost U.S. exports, open world markets, and avoid adding financial burdens that hamper the ability of businesses to compete.

Consider these changes expected in trade in just the next few years:

- A unified Europe will emerge as a global economic power.
- Other new trading blocs will form.
- Japan's economic might will continue to grow, particularly in services and innovative products.
- Investors will be seeking more opportunities throughout the world rather than concentrating on their respective domestic markets.
- Competition among companies for new markets in developing countries and Eastern Europe will intensify.

To meet the challenges that those developments pose, the business agenda proposes these policies:

- Make trade a top national priority. Says the U.S. Chamber's Archey: "President Bush needs to use the White

House as the bully pulpit to talk about the brave new world we live in. Competitiveness in world markets is the kind of issue that requires presidential leadership."

- Work for removal of foreign barriers to entry of U.S. goods and services. A major frustration for American firms in world trade stems from the ways in which foreign countries take full advantage of America's open markets while blocking entry of certain U.S. goods into their own countries.

- Reduce self-imposed export restrictions on U.S. goods and services in the name of depriving other countries of products with potential military applications. The result of these limits is that buyers can often obtain the same goods from other sellers.

- Improve export-promotion and export-financing programs.

- Limit the use of economic sanctions as an instrument of foreign policy. Experience has shown that U.S. suppliers have been hurt most by steps such as cutting off exports to foreign countries that take actions or adopt policies opposed by the U.S. government.

There has been progress toward these objectives in varying degrees.

The Bush administration is pursuing trade reforms that could benefit U.S. companies and those in other nations in multilateral negotiations scheduled to be completed by the end of this year.

The talks are under the auspices of the General Agreement on Tariffs and Trade and are known as the Uruguay Round because they began in that country in 1986. According to Archey, the trade talks to date "have been the pre-season. Regular season will begin this fall, with the playoffs in December."

Issues critical to the U.S. and to the future of world trade include agricultural subsidies, trade in services, the protection of intellectual property, and swift resolution of trade disputes. Major differences remain among the negotiators.

President Bush has said that the talks represent "the last, best chance for the world to enter the next century with free and fair trade for all." However, he also has said that no agreement would be better than a bad agreement.

Freer, fairer trade worldwide—a goal



## A BUSINESS AGENDA FOR THE '90s

## Trade

continually pursued by the U.S. Chamber—could substantially benefit U.S. producers and other exporting nations.

A major reason for business pressure to ease export restrictions is what is widely referred to as the end of the Cold War and the easing of the military threat from the Communist bloc. "The changes in the Soviet Union and especially Eastern Europe require that we redefine what constitutes a threat to U.S. and Western security," says Archey.

Since 1949, U.S. exports to Eastern Europe and the Soviet Union have been restricted by the Coordinating Committee for Multilateral Export Controls. COCOM includes the U.S. and the other countries belonging to the North Atlantic Treaty Organization (except Iceland), plus Japan and Australia. COCOM recently cut the number of items on its restricted-product list, but business leaders and many members of Congress say the list should be cut further.

**T**he U.S. Chamber lobbied strongly for a House bill, sponsored by Rep. Sam Gejdenson, D-Conn., that would reduce the Defense Department's role in reviewing export licenses, establish a mechanism to resolve interagency disputes, and speed up the export-licensing process. According to Archey, the House's overwhelming 312-85 passage of the bill "reflected an extraordinary degree of bipartisanship rarely seen on the historically divisive and ideologically charged issue of export controls."

He says the export-control changes in the bill would "enhance substantially the predictability of the export-control system while substantially diminishing the subjectivity of export-control license decisions that has resulted in billions of dollars in lost sales for U.S. companies."

A Senate export-control bill, which would do significantly less to benefit U.S. companies, has less enthusiastic business support.

If the U.S. is serious about ensuring that U.S. companies are on a level playing field with other countries seeking to sell products in Eastern Europe and the Soviet Union, the administration should be aggressive in pursuing further COCOM reductions in export restrictions, without threatening national security.

The U.S. should also lift trade sanctions against Vietnam. The trade embargo, imposed 15 years ago to pressure Vietnam to resolve the Cambodian war, prohibits any U.S. business interaction with Vietnam. According to the

Chamber, the ban should be lifted now for several reasons: recent cooperation by the Vietnamese on identifying the remains of American soldiers still listed as missing in action; moves by Vietnam toward a market-oriented economy; and the withdrawal of most Vietnamese troops from Cambodia.

The Bush administration should also continue to use the provision of the

for the Chamber, says: "If the U.S. is to increase and sustain its export momentum, it needs to think more strategically and act more aggressively. Government agencies need to work with each other and with U.S. companies in a more coordinated way."

In the 1990s, many U.S. companies selling only in the domestic market will be pressured to expand into internation-

## Country Exports As Percent Of World Total

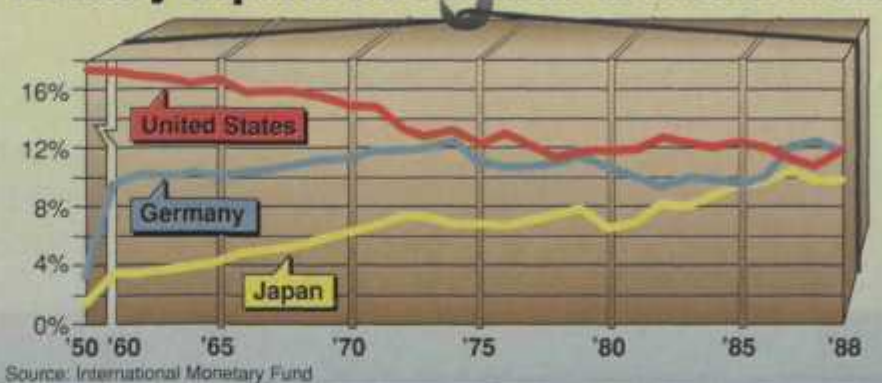


CHART: MARCY MULLINE

**The U.S. share** of world trade has fallen as hard-charging competitors such as Japan and Germany have made strong gains.

1988 Omnibus Trade and Competitiveness Act in seeking the elimination of broad trade policies of other nations that restrict U.S. access to those markets. The provision, known as Super 301, requires the U.S. trade representative to pursue these objectives.

In the area of export promotion, the U.S. must better focus its efforts. Mark Van Fleet, director of export promotion

al markets. These companies will need helpful, well-coordinated government services to adjust.

In addition, moves to reduce funding of the Export-Import Bank and the U.S. and Foreign Commercial Service must be reversed.

To increase U.S. competitiveness, the business agenda holds, these agencies need more resources, not fewer.

## Advertising The Chamber's Concern

The world's largest federation of companies and business associations is launching a nationwide campaign to focus business attention on the critical threat to U.S. competitiveness posed by an increasing number of federal actions and policy proposals. Details of these actions and proposals appear under the appropriate headings of other components of this cover story.

"We live in a whole different market today, and we need to make sure Congress understands that," said Richard L. Leshner, president of the U.S. Chamber of Commerce, in explaining the new advertising strategy.

The Chamber will begin its three-month advertising campaign in September with the first of several weekly ads in the Eastern edition of *The Wall*

*Street Journal*. The Chamber will also run national ads in *Business Week*, *Forbes*, *Fortune*, *Money*, *Nation's Business*, *Success*, and *Time*.

The ad campaign is intended to encourage business owners and executives to get involved in fighting for policies to help U.S. firms compete effectively in the '90s, said Leshner.

"In the 1980s, the whole world—except China, Cuba, and Congress—realized that communism and socialism don't work. We need to make sure Congress knows that other successful countries treat capital and business more fairly than we do in the U.S. And we need every business person in America to be part of the army and part of the movement that takes that message to Congress."



## INFRASTRUCTURE

# The Foundation Must Be Sound

# 90s



PHOTO: © COLUMBUS DISPATCH—SAMMA LARSON

**Deterioration** of the U.S. infrastructure has produced scenes such as this.

In the mid-1980s, Congress created the National Council on Public Works to assess the condition and needs of the nation's infrastructure, that vast network of transportation, water-supply, waste-disposal, and other facilities that keep the economy functioning.

The findings were grim. The council reported back to federal lawmakers that it had found "convincing evidence that the quality of America's infrastructure is barely adequate to fulfill current requirements and insufficient to meet the demands of future economic growth and development."

Since then, there has been little improvement in these resources, says Nancy Rutledge Connery, who was executive director of the council and has continued to monitor U.S. infrastructure conditions.

The magnitude of this issue can be assessed by considering the extent of the transportation infrastructure and the volume of vehicles it supports: 2.2 million miles of paved highways and roads, 140 million automobiles, 40 million trucks, 20,000 intercity buses, 80,000 local-transit buses, 150,000 miles of private railroad track, 26,000 miles of commercially navigable waterways, 1.3

million freight cars, 20,000 locomotives, 2,000 rail passenger cars, 5,300 airplanes operated by airlines, 220,000 general-aviation aircraft, 5,700 public airports, 2,300 navigational aides and other aviation facilities, 40,000 commercial-shipping vessels, 16 million recreational boats, 10,000 subway and other commuter-transit cars, 1.1 million miles of natural-gas pipelines, and 205,000 miles of oil pipeline.

Another indicator of the scope of the problem can be found in spending estimates by the Environmental Protection Agency. The EPA says \$68 billion will be needed to refurbish waste-water-treatment facilities, and an additional \$15 billion will have to be spent to accommodate population growth by the year 2008.

The congressional commitment to deal with the infrastructure issue will be tested soon in one major area. Next year, lawmakers will face the challenge of drafting legislation to meet highway needs. The decision to move forward will be dictated by the expiration of the basic law covering the nation's highway and transit programs, the Surface Transportation Act.

The demise of the act will provide lawmakers with a chance to establish

new directions and new priorities for ensuring that the nation's transportation system—vital to productivity and economic growth—can meet the demands of the years ahead. If Congress fails in its task, a critical segment of the transportation system that U.S. companies use to send their goods to market could suffer.

While Congress ultimately must confront the whole gamut of the decaying infrastructure, setting forth a forward-looking highway plan in 1991 would be a good place to start.

According to the Federal Highway Administration, 25 percent of the nation's interstate roadways have deteriorated, and 23 percent of the nation's 575,000 bridges are structurally deficient. Some form of rehabilitation is necessary for an estimated 60 percent of the total miles of paved highways in the U.S.

**W**hile the need for highway repair is great and will become greater, the need for new roads is also likely to rise. In the 1990s, the number of miles traveled annually by vehicles is expected to increase by one-third. By 2020, demand for surface transportation will double, according to the American Society of State Highway and Transportation Officials.

In addition, population shifts will continue, requiring new road capacity in states such as California, where highway congestion is already severe.

According to William Kelleher, manager of the Community Resources Department and director of the Small Business Center for the U.S. Chamber of Commerce, "Twenty years of underinvestment in infrastructure has come home to roost."

Inadequate investment in the infrastructure has already cost the U.S. economic might—a development documented in terms of lost growth in productivity.

David A. Aschauer, senior economist at the Federal Reserve Bank in Chicago, found, for example, that during the past two decades, Japan has invested about 5.1 percent of output in public works and achieved productivity growth of 3.1 percent annually. The U.S., meanwhile, has invested 0.3 per-



## A BUSINESS AGENDA FOR THE '90s

## Infrastructure

cent and achieved productivity growth of only 0.6 percent a year. West Germany, Britain, and France have also invested more as a percent of GNP and had higher rates of growth.

Today U.S. physical capital investment, as a percent of GNP, continues to fall.

To meet the nation's mobility needs and to improve the outlook for economic growth, the business agenda calls on Congress to:

- Act immediately to restore portions of the basic infrastructure that have fallen into dangerous disrepair.

- Begin constructing the new roads needed to accommodate growth.

- Establish programs to encourage better use of the existing infrastructure.

- Impose user fees as a major means to finance infrastructure construction, maintenance, and rehabilitation.

- Make the design and construction of infrastructure primarily the responsibility of state and local governments within the context of a national program.

- Focus the federal role on capital financing.

- Establish and enforce priorities for repairing, rebuilding, and develop-

ing the roads needed to support commerce.

- Establish a federal infrastructure bank to improve the management of federal contributions to state and local efforts.

- Ensure that the money raised through user-fee trust funds is spent for the purpose for which it is collected.

The test of the congressional will to act on the obvious problems of the nation's infrastructure will also be an important indicator of Congress's commitment to U.S. competitiveness. The actions that Congress takes in the coming year on highway policy will provide a strong signal of where the U.S. intends to go.

## Allan B. Hubbard: Seeking Improved Competitiveness

If there's one thing the new executive director of the Bush administration's Council on Competitiveness understands, it's how to get ahead when you start out behind.

And with the U.S. falling behind many other industrialized nations in capital investment, educational quality, managerial freedom, productivity growth, and a number of other areas related to competitiveness, that experience could come in handy.

Allan B. Hubbard's turnaround skills arise from his entrepreneurial background.

In 1977, about a year after he completed Harvard Law School, Hubbard and a friend bought a small company in Indianapolis. The company, which Hubbard and his partner, Edward Klink, renamed World Wide Chemicals Inc., distributed automotive waxes, polishes, and cleaners.

When the two bought the business, its annual sales were \$60,000, and it was losing money. The third year they owned the firm, sales reached \$580,000, and the company had turned profitable. This year, it expects \$20 million in sales.

The secret to getting ahead, says Hubbard, "was nothing magic. We just tried to do a better job than our competitors." As the head of the Council on Competitiveness, reporting to Vice President Dan Quayle, Hubbard will advise the administration on helping other U.S. companies accomplish a similar goal on a global scale.

The keys to success for Hubbard in business, he says, were quality of ser-

vice and the ability to get things done. "We asked the customers in the industry—distributors who in turn sell to new-car dealers, used-car dealers, and automotive shops—what they wanted that they weren't getting."

They replied that they needed more support and new products, so "that's what we tried to give them," says Hubbard. "When they had a problem, we



Allan B. Hubbard: "It's important... to focus on how we're doing."

tried to accommodate them. We developed our marketing and products in line with customer needs, and we were able to do a better job than our competitors."

In 1983, with World Wide Chemicals growing strong, Hubbard invested in Apex Corp., a manufacturer of aircraft engine components; in 1984 he acquired 50 percent of Bruin & Co. Inc., a manufacturer of chemicals for industrial and janitorial uses. He later sold his inter-

ests in those firms, though he kept World Wide Chemicals. This year Hubbard invested in Compucom Communications Inc., a company that specializes in computer software and billing systems for utilities.

In addition to his business experience, Hubbard brings to Washington a knowledge of politics, which will no doubt come into play as he works to increase U.S. competitiveness. In the most recent presidential campaign, he served as campaign manager for presidential candidate Pierre S. du Pont IV. Hubbard joined George Bush's campaign after du Pont dropped out of the race, and was deputy convention manager for Bush at the Republican National Convention. Currently, Hubbard is vice chairman for the re-election campaign of Sen. Dan Coats, R-Ind.

Hubbard was selected to direct the Council on Competitiveness shortly after President Bush decided earlier this year that the council should focus on the impact of regulation as an anti-competitive force. The council is also keenly involved in the push for a federal product-liability law and for safeguarding the U.S. lead in biotechnology research and development.

Hubbard says: "I'm a big believer in American companies being left alone by government and being allowed to operate in a free market in which people are rewarded for being successful and have the opportunity to fail. I think it's important for us to focus on how we're doing and not to worry so much about how the Japanese are doing. What's important is that our economy continue to grow and our productivity improve." NB

For reprints of this 12-page cover package, see Page 71.



# Benefits Update

*Trends and developments that will keep you current in the field of employee benefits.*

By Roger Thompson

## HEALTH INSURANCE

### Costs May Delay State's Plan

Massachusetts' universal health-care plan, a benefits measure that advocates had characterized as path-finding legislation, seems to have lost its way between passage and implementation. Lawmakers in July sent Gov. Michael Dukakis a budget bill calling for a two-year delay—until Jan. 1, 1994—of the legislation's key provision, mandated health-care coverage. The controversial mandate requires employers to provide and pay most of the costs of health insurance for their workers or pay the state to do so.

Even if Dukakis successfully vetoes the delay, it's becoming increasingly apparent that the state would not have enough money to implement the law as it now stands. Beginning Jan. 1, 1992, all employers with at least six workers must either provide health insurance or pay the state \$1,680 per employee for the state to provide health coverage.

Employers nationwide already spend about \$2,500 per employee on health insurance; in Massachusetts, medical inflation is running above 20 percent a year. Consequently, by 1992 many employers, especially those with high-risk employees, may opt to pay the state the bargain rate of \$1,680 per worker for insurance rather than buy it at a higher price on the open market.

To cover any shortfall, the state would have two choices: increase the employer-paid premiums to cover costs or use general-revenue tax dollars. Almost no one expects the state to be able to afford to use general revenues. In 1989 the state posted a \$1 billion budget deficit attributed to its sagging economy. As a result, the legislature this year passed a \$1.6 billion tax increase, much of which will come from a controversial new sales tax on service businesses.

Much of that revenue will come from small companies, the same group that will be hardest hit by mandated health insurance. In voting for the two-year delay on putting the plan into effect, lawmakers said they wanted to soften that blow.

While Dukakis still considers his

state's universal health plan a model for other states to follow, critics contend that it has a fundamental problem: It does not reform a badly flawed insurance system. For example, it does not alter the insurance practice of screening groups and individuals for high medical risks, a practice that results in inflated premiums and denial of coverage for small employers. Nor does the law exempt small firms from the state's 22 health-benefit requirements. These mandated categories of coverage in effect price health insurance beyond the reach of many small firms.

Critics of the employer health-insurance mandate predict that it won't sur-

vive Dukakis' departure from office in January. He has announced that he will not seek re-election.

Even as Massachusetts struggles to make its universal health plan work, lawmakers in at least seven other states—Ohio, Washington, Florida, Missouri, Indiana, Minnesota, and Arizona—this year have debated similar proposals. All would require some form of tax increase, typically a payroll-tax hike. None of the plans won approval, but they demonstrate that employers increasingly are confronting in the states the same issues of mandated health coverage that they are threatened with at the national level.



PHOTO: ©CHUCK NACKS—PICTURE GROUP  
Gov. Michael Dukakis

## DEDUCTIONS

### Target For Taxes: Worker Benefits

As Congress searches for ways to balance the federal budget, employee benefits pose a tempting target. The Office of Management and Budget reports that taxing employer-paid benefits could raise \$85.2 billion. Pension plans and health care account for 86 percent of the total, or \$73.6 billion.

Several benefit-tax bills have been introduced this year. In addition, the Treasury Department and the Congressional Budget Office have proposed a number of ways to raise billions with new benefit taxes.

Is the public interest better served by allowing deductions for employee benefits rather than taxing them?

The answer is an unequivocal yes, according to a new study by the Association of Private Pension and Welfare Plans (APPWP). The study, *Benefits Bargain: Why We Should Not Tax*

*Employee Benefits*, concluded that pension plans pay out \$4.60 in retiree benefits for every \$1 in potential federal tax revenue. And employer-sponsored health-insurance programs pay out \$5.30 for every \$1 that would be available to the federal tax collector. (See the accompanying chart.)

"For every dollar seemingly lost to the government in benefit tax incentives, the private sector distributes \$5. We call that a bargain," says Ellen Goldstein, APPWP's communications director.

Moreover, most benefit dollars flow to middle-class families or individuals earning \$20,000 to \$50,000 a year. "If Congress decides to tax benefits," says Goldstein, "it is the middle class who will be hardest hit. And it is the middle class who have borne the brunt of most tax increases over the past 10 years."

#### Impact Of Taxes On Benefits

In Billions of Dollars	Benefits Paid	Potential Tax Bill
Total Pension And Profit Sharing	\$ 220.0	\$ 47.4
Private Group Health Insurance	146.0	27.7
Private Group Life Insurance	9.7	2.1
Worker's Compensation	24.2	2.8

Note: Benefits paid in calendar 1989; potential tax bill in fiscal 1990.



## NATIONAL HEALTH COVERAGE

# Canada's Health Plan Is Not For Importing

Several recent polls have shown that most Americans like the idea of Canadian-style national health insurance. Canadians choose their own doctors; the government pays most of the bills and sets all fees charged by doctors and hospitals.

Critics of the American health system frequently note that no one in Canada goes without health insurance—while there are 31 million uninsured Americans—yet Canada spends less of its gross national product on health than the U.S.

If this sounds too good to be true, you're right. Headlines in the Canadian press frequently report problems with waiting lists for hospital beds and some types of surgery. And a new study by the Health Insurance Association of America, a Washington-based trade group, casts doubt on whether the U.S. could afford to copy the Canadian system.

Congress has not shown great interest in transplanting the Canadian model to the U.S., but several states have considered such a plan.

If the U.S. were to adopt a system mirroring Canada's, the changeover would cause a massive shifting of health costs from employers and private insurers to government. In Canada, 74 percent of health costs are paid by government—both federal and provincial. In the U.S., the comparable fig-

ure is only 42 percent, including Medicare and Medicaid.

Increasing the state and federal share of U.S. health expenditures to 74 percent, plus covering 31 million uninsured Americans, would cost an additional \$250 billion in 1991, the study concludes.

## Canadian Headlines On Nationalized Health Care

MacLean's Newsweekly, Feb. 13, 1989

**Sick To Death: Caught Between Rising Costs And More Restraints, Hospitals Are Cutting Services**

The London (Ontario) Free Press  
May 27, 1989

**Need Surgery, Medical Tests? Go To The End Of The Line**

The Globe and Mail, Toronto,  
May 28, 1988

A Canadian-model distribution of costs would saddle the states with responsibility for the entire \$250 billion in new spending, since the U.S. and Canadian federal governments pay roughly the same proportionate amount for national health expenditures—29 percent. Meeting this obligation would require a 71 percent increase in overall state tax revenues, says the study.

If the federal government picked up the entire tab, the added costs would require a 59 percent increase in current federal payroll taxes, a 46 percent increase in income-tax receipts, or a 62 percent decrease in defense spending, according to the study.

Another reason to question the adoption of a Canadian model is that it is no better at controlling spiraling health costs than the U.S. system.

Although Canada funnels less of its gross national product into health care than the U.S. does—in 1988 the figures were 8.98 percent in Canada and 11.06 percent in the U.S.—the report attributes the difference to faster economic growth in Canada, not to more effective health-care cost controls.

When costs are analyzed on a per-capita basis rather than as a percent of GNP, the study shows, both countries have similar rates of inflation in health-care costs. "Analyzing health-care costs over the past 10 years [1977 to 1987], we found that real per-capita health-care spending grew slightly faster in Canada than here."

says Edward Neuschler, director of health-policy studies at HIAA and author of the 100-page study. "The average annual increase was 4.28 percent in Canada, compared to 3.93 percent in the United States."

Says Neuschler: "Public insurance fashioned on the Canadian model does not seem to be an approach that would work well here."

## FEDERAL TAXATION

## LaFalce Proposes A Levy On Benefits

The chairman of the House Small Business Committee has proposed that part of the value of company-paid benefits be counted as taxable income to the worker receiving them.

Rep. John J. LaFalce, D-N.Y., says a levy of that type would raise sufficient revenues to allow both a rollback in Social Security payroll taxes and a reduction in the federal deficit.

Most of any such taxes would come from taxing employer payments for health insurance. Workers would be liable for income taxes on amounts exceeding \$100 a month for individuals and \$250 a month for families. At those levels, almost half of all workers would owe some tax on their benefits packages, according to the Internal Revenue Service.

LaFalce also has proposed a 5 percent tax on pension-fund earnings.

Over five years, the two proposals would raise an estimated \$58.5 billion.

Both recommendations are part of a deficit-reduction plan that LaFalce sub-

mitted in June to President Bush and congressional leaders engaged in the budget summit. The summit meeting was convened to find a bipartisan policy for deficit reduction.

While taxing benefits wasn't high on most lists of possible revenue raisers, the proposal resurfaces periodically.

LaFalce's plan would include spending reductions as well as the tax on benefits. The bottom line of those steps combined with the Social Security tax cut would be a \$500 billion deficit reduction over five years, he says.

Following the lead of Sen. Daniel Patrick Moynihan, D-N.Y., LaFalce calls for cutting the current Social Security payroll tax one percentage point each for employers and employees, from 7.65 percent to 6.65 percent, by 1992. "This will be welcome and needed relief from our most regressive tax for employees and businesses alike, and it will be of particular benefit to small businesses," says LaFalce.

To offset the five-year, \$254 billion

revenue loss from this tax cut, LaFalce would, in addition to taxing benefits, increase income taxes and raise the tax liability for upper-income Social Security recipients. In proposing to limit the level of benefits that are tax-free, LaFalce said that "more and more, employers are substituting tax-free fringe benefits in lieu of taxable cash compensation for their employees."

He notes that President Reagan advanced a similar benefit tax-cap proposal in 1984 during early deliberations on tax-reform legislation. But the idea quickly died under a withering attack from the insurance industry and organized labor. Congress subsequently adopted the notorious Section 89, a misguided attempt to tax or eliminate benefit plans that discriminate in favor of the highly paid. The excessively complex law was strongly opposed by business in an effort led by the U.S. Chamber of Commerce, and Congress repealed it last November.

During the fight over Section 89, LaFalce said he favored taxing excess benefits. Until now, he never defined what he meant by "excess." ■





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very fragile."*

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a source of comfort for me.

"While I was born into pov-  
erty, I knew it didn't have to be a  
permanent condition. I was free  
to do whatever I wanted to do.  
And the liberating force through-  
out my life and career has been  
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of America comes to life. With-  
out it, this country as we know it  
would cease to exist."



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## POSTAL RATES

# The Discontent Is In The Mail

By Albert G. Holzinger



PHOTO: T. MICHAEL REZA

**Mail users' discontent** with the pending postal rate hike is seen in stacks of testimony on the desk of Postal Rate Commission Chairman George W. Haley.

**T**he U.S. Postal Service's request for a record-high rate increase of almost \$8 billion a year has drawn massive opposition from business and individual mailers.

Evidence of the outcry can be found in a three-foot-long horizontal filing cabinet in the mail room of the Postal Rate Commission, an independent federal agency that makes recommendations on rates to the Postal Service's Board of Governors. The commission is reviewing the proposed rate hike, which would average about 19 percent for all classes of mail.

Letters to the Rate Commission on two earlier increases—1984 and 1987—take up only about one-third of the cabinet's bottom drawer. But the top drawer is already filled to capacity with nearly 2,000 letters generated by the latest proposed rate hike, and more letters are arriving every day.

The current letters come from diverse sources, ranging from businesses and their trade groups to the general public to members of Congress, says George W. Haley, chairman of the Postal Rate Commission. In contrast, the conclusions of the letters are almost identical. "Only a handful" of them

support the Postal Service's appeal for more money, Haley says.

Further proof of the mailing public's discontent with the Postal Service is on display in Haley's office. His desk is piled high with testimony from more than 100 individuals and organizations with concerns about the pending rate hike. "There is considerably more interest this time than there was three years ago," when 62 parties intervened, says Haley. His commission has until early 1991 to weigh the concerns of all and make recommendations to the Postal Board of Governors regarding the composition of the proposed rate increase.

Similar discontent with the Postal Service also has surfaced at the headquarters of mailers' groups and broad-based business trade associations.

The Postal Service's latest call for an infusion of funds has "caused many more [members] to look at the Postal Service and say to themselves, 'Enough is enough,'" says Gene A. Del Polito, executive director of the Third Class Mail Association. The pending rate increase "represents the second very sizable [one] that many companies have had to face in a three-year period of time, and it will hit them while they are

operating in a very difficult, highly competitive business environment," Del Polito says.

Del Polito also notes that the Postal Service's rate-increase request coincides with a decision to "realign" delivery standards for some first-class mail. Under this move, which took effect in late July, some mail currently delivered overnight will be delivered in two days; some two-day delivery will be extended to three days. This decision to reduce service at a time of rising costs "really seems to have hit a raw nerve within the [business-mailing] community," Del Polito says.

Business's irritation with the Postal Service also is evident at the U.S. Chamber of Commerce; its members are registering mailing complaints as never before, says Jeffrey H. Joseph, vice president for domestic policy. "Our members are greatly affected by any changes in postal costs and service standards," he says. "The Postal Service's decision to lower service and standards while raising rates has many of them deeply disturbed about their future dealings with the Service." Joseph likely will appear before the Postal Rate Commission this month.

About 94 percent of respondents to a Chamber poll of its membership oppose the proposed rate increase, says Joseph, about 4 percent support it, and 2 percent are undecided. This overwhelming opposition is not surprising, he says, because according to the Postal Rate Commission, about \$6.2 billion of the proposed \$8 billion increase would come from the cash registers of business mailers. "Coupled with the recent increase in the minimum wage, a postal rate hike of that magnitude could force many small and midsized companies out of business," he says.

The Postal Service's recent degradation of service merely "adds insult to injury," Joseph says. "The Postal Service based its decision to slow down service on results of a survey it conducted of 27,000 people. The survey showed 70 percent preferred consistency—by this the Postal Service means for any class of mail, delivery in a predictable number of days—to speed of delivery. But the question was phrased to imply that they could not have both."

"The question should have asked



*The Postal Service's proposed rate hike has sparked massive opposition among businesses, individuals, trade groups, and lawmakers.*

whether people wanted consistency if it meant losing a day's delivery. When the New York State Consumer Protection Board asked that question, 98 percent of respondents preferred timeliness over consistency.

Because of a federal court ruling, the Postal Rate Commission lacks authority to block the rate-hike proposal. So, despite the protest, the increase will take effect, unless the Board of Governors rejects it or Congress intervenes.

Congress set up the independent Postal Service 20 years ago to remove lawmakers from the controversial business of setting rates. The Third Class Mail Association's Del Polito believes Congress is unlikely to step back into that quagmire at this time. "I think [members of Congress] are getting more mail about the Postal Service than they ever have before, so I think there's a growing awareness among them that this is of concern to the public," he says. "But Congress still is very much a captive of the strong influences brought to bear by the [postal] unions." Since wage and benefit costs account

*The pending rate increase represents the second very sizable one that many companies have had to face in three years.*

—Gene A. Del Polito,  
Third Class Mail Association

for 83 percent of the Postal Service's budget, the postal unions naturally contend that continued rate hikes are in the best interests of their members.

The U.S. Chamber's Joseph acknowledges the postal unions' clout among elected officials but says the Chamber is committed nonetheless to continue fighting the proposed rate increase. In an effort to gain the support of politi-

cians, the Chamber is tying the rate increase to ongoing efforts to reduce the federal budget deficit.

"As efforts are made to reach an agreement on reduction of the federal budget deficit, we urge you to consider the effect the proposed postal rate increase... will have on the economy," the Chamber recently told President Bush and members of the budget summit convened by the president. "Traditionally, increases have been of concern to a narrow group of postal experts, but when you consider the impact on the economy, we believe it is important that [you] carefully consider this transfer of funds from the private to the public sector."

The Chamber's message concluded: "Granting a 19 percent [postal] increase is equivalent to an \$8 billion tax hike, or an 8-cent-a-gallon increase in the gasoline tax. We believe [you] should factor this increased cost to the private sector into any decision... on how much money can realistically be taken out of the economy without endangering continued economic growth." ■

## Chamber Protests Certain Tactics

The U.S. Chamber of Commerce is protesting methods used by some postmasters to complain about a Chamber brochure that opposes the rate increase sought by the U.S. Postal Service.

The business organization has asked the investigative arm of the Postal Service to determine whether a letter-writing campaign by postmasters in the central U.S. violates lobbying restrictions on public employees or is "an improper use of the Postal Service's time, money, and resources." The postmasters' letters were directed at a Chamber brochure titled *Cancel This Stamp*.

The brochure, widely distributed among Chamber members, denounces the Postal Service's request for a rate hike averaging 19 percent for all classes of mail, effective next year. The pamphlet urges recipients to make their opposition known in Washington.



Postmasters used free mail to defend higher rates for the public.

In response to the brochure, J.K. Lee Sr., postmaster general for the Central Region, spanning 13 states from Michigan and Indiana to Colorado and Wyoming, encouraged employees under him to protest to the Chamber.

The result to date is more than 1,000 letters, about one-third of which were written on Postal Service stationery and delivered in so-called penalty envelopes, which carry no postage and bear the imprint, "Penalty for private use to avoid postage \$300."

Lee also asked local postmasters to contact their chambers of commerce and urge them not to distribute the pamphlet. "Some of these chambers have told us they feel their mail delivery will be threatened if... [they] participate in the rate-making process, in which the views of business are supposed to be solicited," Chamber President Richard L. Leshner wrote to Mark Grey, postal inspector in charge of the Chicago division. "The message postmasters are sending to our chambers is having a chilling effect on their First Amendment rights."



## RETAILING

# Bookstores Are Bestsellers

By Janet Lowenstein

**C**hapters is a small, independently owned bookstore in Washington, D.C., located within an easy walk of Waldenbooks, a popular nationwide chain store, and Crown Books, a Washington-based discount store. Enter any of these stores during a weekday lunch hour, and you'll find browsers in every section and buyers at the cash register.

A subway ride away in Maryland, you can visit the Mystery Bookshop in Bethesda. This special-interest store is neighbor to eight other bookstores. On a Saturday afternoon, you'll likely find buyers visiting one shop after another.

Leonard Riggio calls this "the golden age of book selling." That phrase may not be surprising, coming from the president and CEO of the chain stores Barnes & Noble/B. Dalton. But the age also appears gilded for the small, independent booksellers whose survival appeared threatened just 20 years ago.

In the 1970s, most independent stores were located in downtown shopping areas, which were losing business to the burgeoning suburban malls. With the exodus of businesses and residences from the cities to the suburbs, many of the independents' customers also left.

That picture began changing in the mid-1980s, according to Bernard Rath, executive director of the American Booksellers Association, in New York City. Rath says the emergence of computers, demand for specialization, and other technological and sociological changes worked together to create a resurgence of small independent bookstores in cities and suburbs.

The Census Bureau reports that the number of stores that primarily sell books and that have at least one employee increased nearly 12 percent from 1982 to 1987, from 9,891 to 11,076, compared with a 5.7 percent increase in retail establishments generally. In the same period, dollar sales in bookstores increased about 64 percent, from \$3.1 billion to \$5.1 billion, compared with a 43.6 percent increase in total retail sales. Cahners Economics of Newton, Mass., which projects bookstore sales, expects 1990 sales to reach \$6.4 billion.

New York-based Barnes & Noble/B. Dalton will open 20 B. Dalton Bookstores this year, and Waldenbooks, headquartered in Stamford, Conn., opened



PHOTO: T. MICHAEL REEA

**In Chapters**, their downtown Washington bookstore, Terri Merz, seated, and Robin Diener hold book signings and readings.

nearly 90 stores last year, according to representatives of the two companies. Waldenbooks has not settled all its plans for this year.

Chain bookstores, like B. Dalton and Waldenbooks, typically are located in malls and shopping centers. Their inventories vary with each location, but the stores usually carry 10,000 to 20,000 books, primarily bestsellers and the most popular books on a wide range of subjects. Some chains, like Waldenbooks and Crown, designate certain stores for serious book lovers and stock them with 80,000 or more books. Most chains offer discount prices on their best-selling books and some form of discount program for frequent buyers.

Rath says there are no statistics on the surge in independent bookstores, but their numbers have been growing for the past five years.

Independent stores are as different as their owners. Some stores, like Borders Book Shops, based in Ann Arbor, Mich., and Oxford Book Stores, of Atlanta, carry 75,000 to 130,000 books and concentrate on selling selection and service. But most independents are small stores that carry a few thousand books and carve a niche within a subject that

*Small, independent bookstores are flourishing as readers' preferences grow more specialized and computers streamline retailing tasks.*

interests their owners. In doing so, many independents find readers with similar interests.

Chapters (officially, Chapters: A Literary Bookstore) is a popular and profitable independent store in the nation's capital. Owners Terri Merz and Robin Diener say they owe their success to selling their taste—fiction and poetry, literary criticism, and belles-lettres. Before opening their own store five years ago, both Diener and Merz had worked for several years at Olsson's Books and Records, a Washington, D.C., chain of general-interest bookstores. Merz says that in stocking their own store, they couldn't afford a large inventory, "so we wanted to carry things that we like to sell and that we believe in selling."

They also knew about marketing and Washington book buyers. Diener says most book buyers purchase only bestsellers, "so it's a very small group of people that you're asking to come to this kind of store." Chapters carries 40,000 different books, and often only one or two copies of each title. Merz says customers tell them, "This is the only place where I ever see books on display that I've read reviews of." The owners will recommend books, and they





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## RETAILING

dot their shelves with written descriptions of some of the store's more esoteric offerings.

Like most independents, Chapters will specially order, gift-wrap, and ship books. The store also offers a frequent-buyer service, which Merz and Diener started in the early days of Chapters to draw customers. Since then, B. Dalton, Waldenbooks, and Crown have started frequent-buyer clubs. Chapters' customers get a \$15 discount after buying \$150 worth of books.

The owners think customers recognize the steps independent booksellers take to serve them. "I think quite a few people take a stand," Merz says. "They say, 'Well, I'd rather support an independent bookstore than a chain.'"

Diener and Merz believe their customers like the store's "bookish" atmosphere. Chapters has had book signings, readings, and lectures. Merz says the readings always draw new customers along with some regulars, and the best of the events are like "literary salons."

The literary life alone is not responsible for Chapters' success. Merz and Diener credit the computer too. It runs Chapters' sales reports and keeps track of special orders, inventory, and mailing list. It also works as the store's cash register.

Ronald and Jean McMillen, co-owners of the Mystery Bookshop in Bethesda, which sells new and used mysteries, also depend on the computer for ordering and tracking their store's 10,000 titles. Ron McMillen says the accessibility of computers has been an important boon to independent booksellers.

Timothy Mawson, owner of a gardening bookstore in New Preston, Conn., has been slow to computerize, and now he regrets it. He is beginning to enter the computer age so he can better keep track of his customers' tastes.

Timothy Mawson Books has enjoyed success and renown. It has been featured in such magazines as *House Beautiful*, *Victoria*, and *Publishers Weekly*. Like Diener and Merz, Mawson attributes his success at least in part to his selling what he likes. His interests are gardening, horticulture, and decorative arts. He sells primarily antiquarian and out-of-print books on those subjects as well as some new books on gardening, British literature, art prints, and antiques.

The store's decor reflects Mawson's

tastes. He aims for visual interest, what he calls "an atmosphere," to give the sense of a complete gardening store. And with the prints, gardening furniture, and flowerpots arranged throughout the shop, Mawson has created an atmosphere of an English country garden inside. Outside, the store overlooks the Aspetuck River. In the spring and summer, a garden flowers on the riverbanks, and potted plants add color to the balcony above.

In sales of old books, Mawson competes with other book dealers in the field, "but we all have different approaches," he says. In sales of new



PHOTO: © WILLIAM SEITZ

**Book retailer Timothy Mawson creates the atmosphere of a gardening store.**

books, his competition is the "wonderful country bookstore about 10 minutes away." His store is close to three other antiquarian shops, but these do not concern him because browsers from one generally go into the others too.

Special events are important to Mawson. This summer he is holding book signings as well as demonstrations on flower arranging and container gardening. The audience for gardening books includes readers interested in garden history, landscape architecture, and English country gardens. Mawson says gardening is growing in popularity, making room for a lot of booksellers.

The chains like Barnes & Noble/B. Dalton and Waldenbooks agree that there is room for a lot of booksellers. "We all have the same mission," says Waldenbooks' spokeswoman Susan Arnold, "to get people to read and buy books."

By all accounts, both chains and independents are doing that very well. ■

## Opening A Bookstore

Jean and Ronald McMillen spent close to three years investigating possible businesses before they decided to stick with what they knew. Their year-old Mystery Bookshop in Bethesda, in the Maryland suburbs outside Washington, was a "natural," Jean McMillen says, because "I am a crazy mystery reader."

McMillen says knowing what you sell is important in a special-interest bookstore. "The more you know your market and your product, the better you'll do."

The American Booksellers Association says it is important for bookstore owners to love books and literature of various kinds. But they also must enjoy detail work, says Allan Marshall, the ABA's director of professional development and education. Bookstore owners "need to deal with hundreds or thousands of suppliers and a constant roll-over of inventory," he says. "The ordering process never stops, the checking of packing slips never stops."

The American Booksellers Association offers help to owners and prospective owners through a variety of publications and services, including a free brochure titled *Opening A Bookstore*, a site-analysis service, the monthly *American Bookseller* magazine, and the association's Prospective Booksellers School. This three-day course is held three times a year. It is taught by experienced booksellers and provides information on the mechanics of opening and running a store, including site selection, financing, inventory selection, store and staff management, and promotion. The ABA also offers courses to experienced booksellers who want to expand their knowledge of the trade.

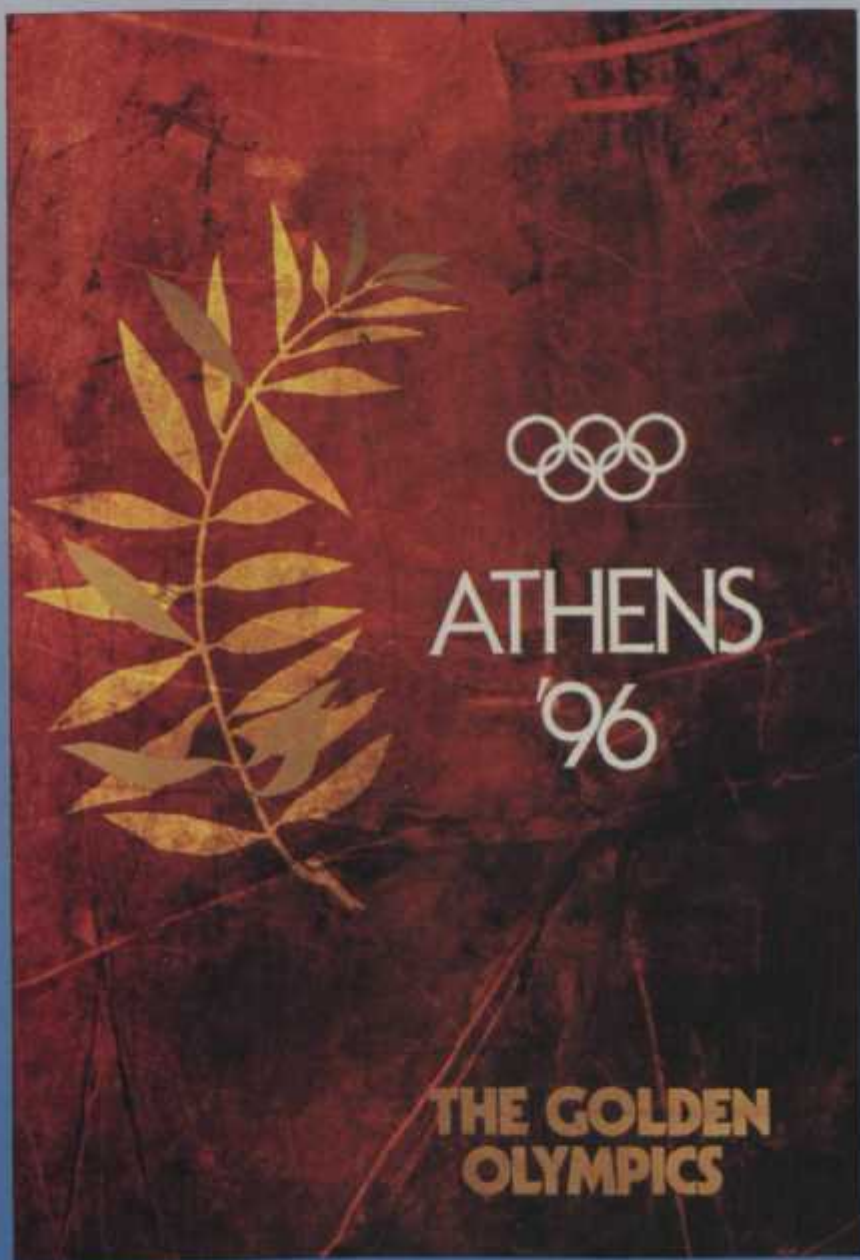
Jean McMillen says one benefit of the ABA's school and of belonging to the association is the opportunity for networking. She also networks with a group of mystery buffs who meet at her store one Sunday a month. This group discusses mysteries, helps her at special store events, and writes articles for the store's two newsletters.

Marshall says many people who open bookstores think they'll be able to read all day. That romantic illusion vanishes quickly, he says, when they find they only have time to read book reviews, order forms, and catalogs.

Information on opening a bookstore is available from the American Booksellers Association, 137 West 25th St., New York, N.Y. 10001; (800) 637-0037.



# GREECE





## SPECIAL ADVERTISING SECTION

## GREECE



PHOTO © RICK COLBROTH-POLLO INC.

By Victor Walker

**F**or a country described by its own prime minister as hovering on the edge of bankruptcy when he took office last April, the air of optimism and confidence that today marks Greece's business world and much of its society can only be described as remarkable.

The April elections, the third in less than a year, enabled the liberal-conservative New Democracy party, headed by veteran politician Constantine Mitsotakis, 72, of Crete, to form a government the fragility of which is more apparent than real.

Though it secured only 151 seats in the 300-seat Parliament, it has embarked on a program of economic stabilization, reform, and modernization that presumes at least a four-year hold on power.

The explanation is a simple one: In each of the three elections since June 1989, New Democracy obtained a degree of voter support—reaching just under 47 percent in April—that would have provided a comfortable parliamentary majority but for the fact that, in early 1989, the then-Socialist government had changed the election system.

The Socialist move, prompted by a conviction that it could not win, had aimed at ensuring its succession by political instability, as represented by ephemeral and powerless coalition administrations. The gambit worked twice, but not the third time.

Mitsotakis will now be free to choose his moment to restore the traditional election system and call new polls. He could do this as early as October, when munic-



Prime Minister Constantine Mitsotakis.

pal elections must be held anyway, or hold off until sometime in 1991 in the anticipation that he will by then have more substantial results to show from the changes now being pushed through.

By either date, he should be able to count on the accrual of strength that comes naturally to a governing party with even limited patronage to dispense, and also on the effect on the Socialist vote of impending trials, in connection with alleged financial and other scandals, of former Socialist Prime Minister Andreas Papandreou and some of his closest associates.

In these circumstances, there is no feeling in Greece that the present administration is as precarious as its current parliamentary strength would suggest. To the contrary, it is the Socialist and Communist opposition parties that have the soundest reasons to fear new elections.

**I**n its first months in power, the government adopted emergency measures to cover the immediate budget crisis, represented by difficulties in meeting the state payroll, and embarked on a dual process of restoring Greece's credibility abroad and preparing the ground for development at home.

Mitsotakis visited the capitals of all 11 of Greece's European Community partners, successfully paving the way for a decision by the EC's June summit in Dublin to offer the necessary helping hand, even though special EC assistance in 1985 to confront comparable difficulties had been wasted during the last half of the eight-year period of Socialist rule.

Mitsotakis also became the first Greek prime minister for 26 years to be welcomed at the White House by a U.S. president, in the course of a visit to the U.S. during which he obtained agreement on updating and activation of an accord on the development of bilateral economic and trade relations that had been signed by a New Democracy government in 1980, just before it lost power, and never implemented by the Socialists.

The main concern of Mitsotakis has been to impress on his EC partners and on the U.S. on the one hand that Greece can now be considered a reliable member of the European Community and the Western

Victor Walker is a writer in Athens.





alliance and, on the other, that the interlude of Socialist distortions of the economy and of market forces is definitely over.

As regards the EC, this means commitment to the goals of economic convergence and political, economic, and monetary unification in the context of the 1992 completion of the integrated single market, which Mitsotakis convincingly provided. Greece is now once again speaking and acting as a dedicated partner determined to fulfill the obligations that accompany the benefits of membership.

As regards the U.S., it entails that Greece should cease to play the incongruous role of a nonaligned country within the NATO alliance. To this end, the new government quickly granted full *de jure* recognition to the state of Israel, reached an eight-year Defense Cooperation Agreement with Washington covering U.S. military bases in Greece, and adopted a resolving stand against international

terrorism and narcotics trafficking.

The last remaining step to be taken under this heading will be the extradition to the U.S. or trial in Greece of an alleged Palestinian terrorist, Mohamed Rashid, whom the U.S. seeks in connection with an attack on a Pan Am airliner and the Socialists had cushioned equally from extradition and local trial.

**U**nlike in 1985, the Greek government is not this time seeking a direct loan from its European Community partners to help cover budgetary and balance-of-payments shortfalls, nor at the moment even a rescheduling of some of the excessive debt burden incurred by the Socialists.

Its immediate problem is its inability to provide the matching funds in drachma required if it is to draw its full entitlement of EC assistance under existing regional development and other programs. It there-

fore seeks to borrow, from the partners or through the European Investment Bank, the funds to cover these specific obligations. As Mitsotakis says, the assistance is sought "for investment and development, not for consumption."

This point was taken at the June EC summit, which adopted a resolution expressing satisfaction with the initial Greek measures for economic modernization and development and instructed the Commission of the EC to examine "the necessary measures to ensure the successful restructuring of the Greek economy and its closer incorporation in the Community."

Similarly in the U.S., the government's goal is to stimulate the investment, in industry and services, that it believes would flow as naturally to Greece as to Spain and Ireland if the climate in this country were made equally conducive.

While it is currently improving the already generous investment incentives be-





## SPECIAL ADVERTISING SECTION



ing offered in the form both of direct grants and fiscal arrangements, it appreciates that these will prove no more effective in the future than they have over the past 10 years unless the potential investor can be imbued with confidence that he will receive a genuine welcome in Greece, and will be free to operate and to make and repatriate profits without crippling bureaucratic obstructions, over a sufficiently lengthy period during which "the rules of the game" will be clear and unchanged. And also that the terms of competition will be fair and equal as much between the Greek and foreign investor as between the public and private sectors.

Initial administrative reforms have been aimed squarely in this direction, with simplification and acceleration of investment approval procedures and elimination of built-in disincentives.

In the economy as a whole, one of the government's priorities has been to reverse trends that during the 1980s raised the proportion of gross national product concentrated in the public sector from a little over 30 percent to around 70 percent, through deliberate expansion of the state and local authority role in manufacturing, commerce, and services.

Under legislation enacted in June, loss-making nationalized industries and affiliates of state-controlled banks are to be offered for sale to the private sector, Greek or foreign, and liquidated if there are no takers. This will both reduce budget deficits and remove one of the basic sources of distortion in the Greek market.

Also, over the next few months, a cautious start is anticipated on privatization of some traditional state activities, even though the sell-off of major corporations—such as power, telecommunications, and the Olympic Airways—is unlikely to be broached until after the next elections.

Though government convictions accord with European Community rules and the requirements of alignment to the single market as regards deregulation of the banking and financial-services sectors and liberalization of currency movements, deregulation and liberalization too will have to move less quickly than the government would wish because of Greece's current economic difficulties.

The government has had no difficulty in bringing home to the Greeks the seriousness of the situation, which in any case had been pointed out repeatedly by the EC, the International Monetary Fund, and the Organization for Economic Cooperation and Development (OECD) prior to the April elections and, in greater detail, by a think tank set up by an interim government



last year and headed by a former governor of the National Bank of Greece, the country's largest banking institution. Current difficulties include:

- Inflation running at more than four times the EC average and threatening the competitiveness of Greek products on both the domestic and the export market.
- A current-account deficit that reached \$2.57 billion in 1989 and worsened still further in the first five months of this year because of surging imports, stagnant exports, and a diminishing net balance of invisible payments, compounded by the effects of expectation of devaluation linked with the extended period of po-

litical instability up until April. As a proportion of gross domestic product (GDP), the current-account deficit jumped to 5 percent last year and at one point in the early months of this year touched 10 percent.

- An overall public-sector deficit that climbed above 20 percent of GDP in 1989, and by April was clearly on course for 22 to 25 percent for 1990.

- An economic growth rate that dropped to 2.9 percent in 1989 according to the OECD (the Bank of Greece insists on 3.2 percent), compared with 4.3 percent in 1988, and which the OECD says will sink to about 2 percent this year.

By April, the interim government, powerless to initiate reforms, had reached the point of borrowing abroad in hard currency to meet monthly public-sector salary and pension bills.

The Mitsotakis government took fire-brigade action immediately in a special half-year budget enacted in June. The immediate action included a halt to budget subsidization of public corporations and utilities, resulting in increases of between 12 and 25 percent in electricity and water charges and transportation fares, as well as a special retroactive tax levy, a rise in value-added tax (VAT) scales, and adulteration of the Socialists' wage-indexing system—the automatic linkage of pay increases with inflation—as a preliminary to its abolition next January. The package added an estimated 4 percentage points to inflation, bringing the rate to approximately 22 percent.

The government simultaneously imposed a total ban on recruitment in the wider public sector, except for purely sea-

## Greek Chamber Fosters Ties

The American-Hellenic Chamber of Commerce seeks to further economic relations between the U.S. and Greece. It represents and promotes the interests of its members and helps facilitate commerce between the U.S. and Greece.

To those ends, the chamber seeks to acquaint and inform the members of the American business community residing in Greece about the economic environment and business practices of the host country. It also seeks to represent the Greek-American business community within Greek government departments and agencies, to aid and assist importers, and to provide a forum for exchanges of views on

matters of mutual commercial interest.

The American-Hellenic Chamber of Commerce was established in 1932 as a nonprofit, self-supporting organization. As a policy, the chamber does not accept subsidies in any form from any governmental body, thereby assuring its independence in representing the Greek-American business community. One of the chamber's missions is strengthening the ties between Greece and the U.S. by promoting trade and economic relations between them. This is achieved through its 1,300 corporate members, consisting of all U.S. companies operating in Greece and many Greek enterprises doing business with the U.S.

For more information on the American-Hellenic Chamber of Commerce, write to Symeon G. Tsomokos, General Manager, 16, Kanari Street, GR 106 74, Athens, Greece.



## SPECIAL ADVERTISING SECTION

# Many Reasons To Consider Doing Business In Greece

By Petros Kontos

Greece is a land abundant in scenery, culture, and tradition. References to this small Mediterranean country invoke pictures of beautiful beaches, busy cities, and splendid civilizations of the past. However, Greece is much more than just a vacation attraction for tourists.

It is a country gearing up to address the broad economic challenges and opportunities that a unified European Community will present beyond 1992. Based on mobilization of both the private and public sectors, Greece is able to present the U.S. business community with enormous investment and trade opportunities.

For the large American multinational firm, a Greek presence might mean branch offices, subsidiaries, or even direct acquisitions. American corporations such as Ford, Dow Chemical, Union Carbide, IBM, and Mobil have established offices in Greece. For smaller companies, opportunities are also present in the use of well-positioned distribution bases to penetrate the EC markets or to establish a joint venture with a similar Greek company, many of which welcome U.S. know-how and transfer of financial resources.

Greece's strategic position at the crossroads of three continents offers easy access to the upcoming barrier-free European market, the rest of Europe, and the emerging Eastern European markets as well as to Africa and the Middle East. Many U.S. companies in Greece are likely to be treated as domestic companies under the single-market program.

The investment environment in Greece is favorable. Over 1,000 international companies have already made direct investments in Greece, 400 international firms provide know-how or license rights to their Greek associates, 25 foreign banks operate successfully, 5,000 international firms are represented in Greece by local agents, and 2,500 Greek companies are exporting their products abroad.

Some of the most prominent investment opportunities for prospective investors are in the areas of food processing, packaging and distribution, fish farms, telecommunications-related investments, pulp and paper products, computer hardware and software and other business machines, automotive parts, machine tools, medical equipment, biomedical products, clothing, metal office furniture, iron castings, enameled hardware, cutlery, petrochemicals,

cosmetics, adhesives, detergents, rubber products, paints, and varnishes.

The legal framework in Greece provides investors with a choice of two sets of generous incentives packages: the first comprises state grants, interest-rate subsidies, and higher depreciation rates; the second, a combination of tax allowances coupled with higher depreciation rates. Also, the state offers full protection of foreign capital and permits free repatriation, in any currency, of imported capital, of profits and royalties, of capital gains, etc., for all productive investment.

The traditional bureaucratic constraints for incoming foreign investments are fading away. In fact, the government is taking steps to abolish all the disincentives.

Furthermore, Greece has a very competitive and specialized labor force, and the hourly compensation cost for production workers is substantially below those prevailing in almost all EC countries. Greek industry is particularly competitive in the intermediate technology sectors.

Liberalization of financial and capital markets has proceeded rapidly. The commercial banking system is progressively deregulated so as to be modernized and prepared for the competition entailed by the creation of the integrated European market. Already lending interest rates are freely determined by the commercial banks, and greater flexibility has been accorded to banks for setting deposit rates. New financial instruments are appearing in the market while the stock market's enhanced role in providing scarce capital to businesses is very promising. Restrictions on capital movements are gradually lifted and progress is made in the harmonization of domestic institutions and legal framework to those of the European Community.

In order to further upgrade the infrastructure network, a number of major construction projects are planned. All these projects are open to foreign investors. Greece is one of the strongest candidates to host the Summer Olympics in 1996, and a series of construction projects related to this event should be undertaken as well.

The total planned cost of the generous investment program for the next four years will reach 15 billion ECU. A large sum of these funds will be allocated to Greece through the EEC Structural Funds. Specifically 7.2 billion ECU will be allotted during the above period, while the other 50 percent of the total cost will be provided through state funding and through loans from the European Investment Bank.

The willingness of the government to promote investment activity cannot be better manifested than by the new private in-

vestment-incentives law. The law links the successfulness and progress of the investment with the amount of state assistance by giving more emphasis to the tax allowances (particularly in the case of reinvestment of profits). We should stress here that the investment grants will continue to be provided fully by the state. The main advantage of these measures to prospective investors is that the tax allowances are given automatically without any prior state approval as in the case of grants. Therefore there is an elimination of the administrative procedures. Meanwhile the equity capital of the investor will be increased as a percentage of total investment cost, assuring better success of the project.

Additional incentives will be granted to the firms which will allow the transfer of embodied technology and the utilization of a specialized local labor force.

The labor market has been deregulated through establishment of a flexible work schedule, the introduction of part-time work, and the fourth shift.

The stability and opportunity that Greece offers to foreign investors is unprecedented. Contrary to the public sector's economic deterioration, the private sector has already shown the promise of what is to come, as evidenced by the recent outstanding record of the Athens Stock Exchange, the rise in investment expenditures by existing companies, the buyouts of several important Greek firms by international concerns, and the continuous business asset prices. Thus, U.S. firms should consider how they may become more involved to reap the benefits of Greece's vast investment opportunities.

Investment requests in the U.S. should go to the Economic Office of the Greek Embassy in Washington (1636 Connecticut Ave., N.W., Washington, D.C. 20009; call: 202-745-7100; facsimile: 202-265-4291).

The Economic Office, which represents the Ministry of National Economy, the coordinating body of investment activities in Greece, provides prospective investors in the U.S. with the information for establishing direct investments or joint ventures in Greece. More specifically, the office provides details on investment legislation, the business and investment climate, and state incentives in various sectors.

After the basic material has been supplied to the prospective investor, the Economic Office can arrange appointments and establish contacts between investors and the authorities in Greece, or match the needs of U.S. entrepreneurs seeking to establish business contacts with their Greek counterparts.

*Petros Kontos is director of the Economic Office of the Embassy of Greece in Washington, D.C.*



## SPECIAL ADVERTISING SECTION



sonal workers hired on a fixed-term contract, while giving itself six months to establish manpower needs and cut staff.

The half-year budget provides for the deficit to be cut only from last year's 20.4 percent of GDP to 19.6 percent. Finance Minister Ioannis Palaiocrassas told Parliament the saving might not seem much, but it marked a reversal of trends. He said the budget, rushed together in 40 days, did not reflect government policy but gave effect to decisions taken by the interim administrations and the emergency measures adopted after the April poll.

Palaiocrassas said the government's first "budget of policy" for 1991 would be presented to Parliament in November.

The government's stated intention is to reduce the deficit progressively to a manageable 10 percent of GDP over a three-year period, by which time the inflation rate too should be single-digit. Additional revenue is to derive principally from the

assault on tax evasion and fraud and settlement of pending disputes, privatization, and the sale of a new form of state land bond.

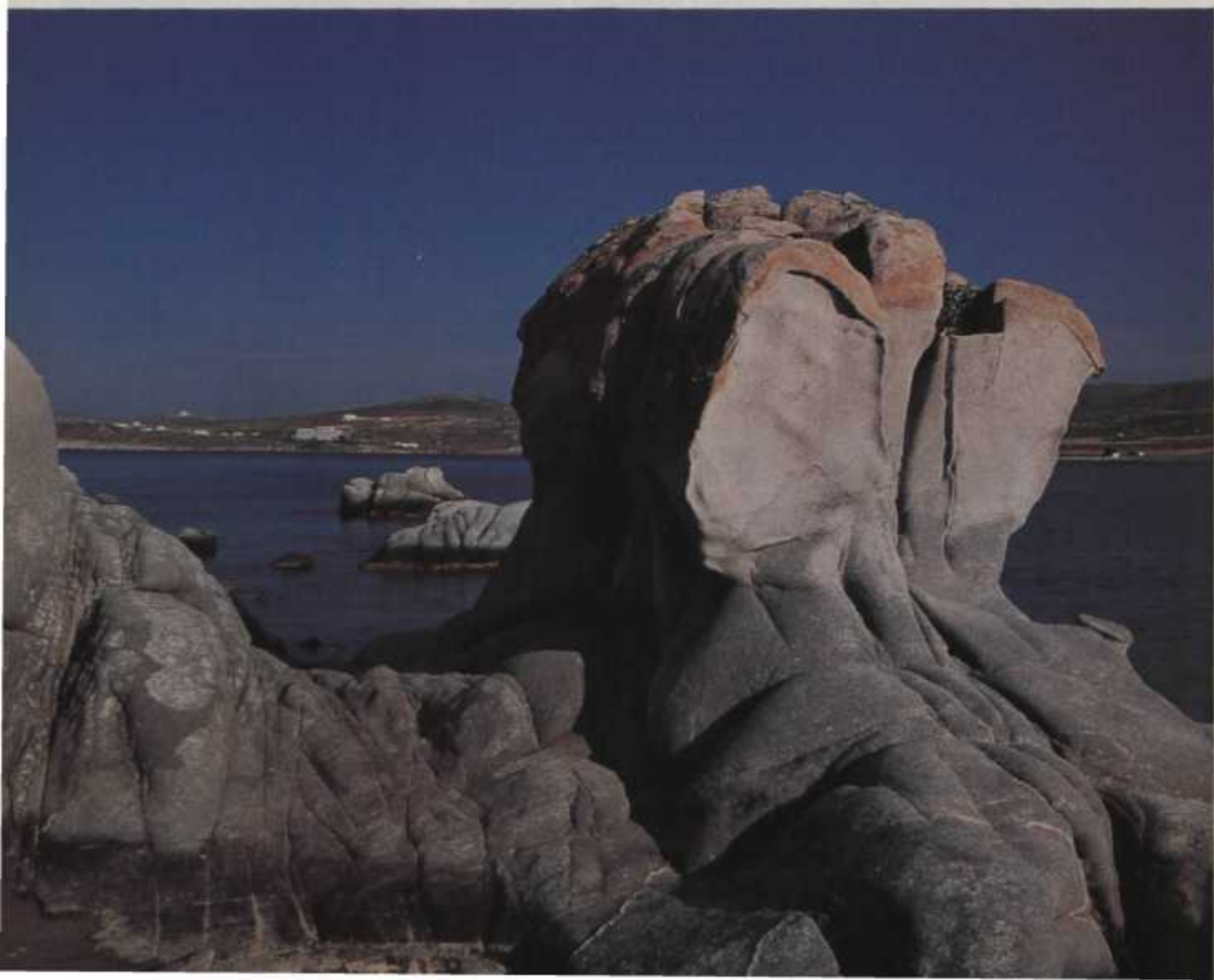
Held in reserve are two measures insistently recommended by the EC and international organizations: expansion of the tax base to the farm sector and subjection of interest on bank deposits and state bonds to income tax. While the former is a political decision that will likely have to await the next elections, the latter depends on curbing inflation. At present, untaxed interest as high as 20 percent is still effectively negative. The government is naturally reluctant to hazard a diminution of the savings ratio, if not an actual run on the banks, which would reduce the funds available for state borrowing.

Farm income is theoretically taxable, but the threshold is set so high that in practice it escapes the net. This dates from the time when there was a sharp dis-

parity between urban and rural incomes, something that no longer exists after 10 years of an EC membership from which the countryside has been far and away the main beneficiary.

**D**espite this, and also despite pressure from the trade unions for equalization of the tax burden (the unions maintain with some justification that obligations are met in full only by those whose earnings or pensions are taxed at source), governments have so far been forced to dwell on the consideration that farmers and their families make up more than 30 percent of the electorate.

This issue is bound up with Greece's notorious black-market economy, estimated by the think tank to represent an annual input of at least \$22.6 billion, equivalent to about 40 percent of national income. Of this sum, however, only \$6.6 billion escapes through "pure" tax evasion, fraud,







and various legal exemptions. Farm income is assessed at another \$6 billion, and interest on bank deposits and state bonds at not less than \$10 billion.

The government is preparing legislation that will phase out special exemptions and also make greater use of national-income criteria in assessing the tax obligations of Greece's unusually large proportion of self-employed professionals. Also, a more intensive computerization of government services, under an EC-financed program, will cut down the opportunities for evasion and fraud, particularly in relation to indirect tax.

No one is saying that this alone will solve the deficit problem. Officials concede that eventually there will be no alternative to the subjection of farm income and interest to tax. The apparent aim is to hold off as long as possible in the hope that these politically damaging steps can finally be taken in response to EC require-

ments, rather than simply to raise money.

The existence of these massive sources of potential revenue, the hundreds of large and small enterprises that could be privatized in stages, and the grotesque extent of overstaffing in the wider public sector help account for the confidence in Greece that present budgetary difficulties are far from insoluble.

**M**eanwhile, in its first major piece of legislation based on policy choices, the government presented a 115-article bill to Parliament in June adjusting investment incentives and introducing a significant degree of liberalization in the banking and labor markets.

While this is an essential part of the harmonization of Greek to EC conditions, it was also an imperative move in the context of attracting domestic and foreign investment. Though businesses will remain

subject to tight restrictions on dismissals—a maximum 2 percent of a work force in any one month—they will from now on be able to make use of part-time labor in the context of adjusting employment levels to fluctuating production needs. Greater flexibility in the labor market has been a longstanding demand of prospective investors.

One immediate government concern is to weather the storm raised against some of its measures, in particular the pending abandonment of wage indexing and the introduction of part-time labor by the Socialist- and Communist-controlled sector of the trade-union movement. Already, however, there are signs that the Greek General Confederation of Labor (GSEE) and its civil service equivalent may have overestimated their strength, placing themselves on course for a leadership crisis. A succession of one-day general strikes drew a sufficient response in the public sector to cause widespread disruption, but were largely ignored in the private sector. At the same time, strikes of longer duration in education, forcing postponement of examinations and therefore of family holidays, and power blackouts throughout the country in defense of the "acquired right" of state power-corporation employees to receive unlimited electricity at token cost, have damaged the union movement heavily in terms of public sympathy.

Apart from the deterrent effect of 22 percent inflation on the willingness to lose a day's pay, response to the strike calls in the private sector has been negligible also because the New Democracy party has greater representation in the union leadership than it has in the public sector, where staff expansion is a legacy of the Socialist period. Also, labor relations are better.

The government has so far been content to play a waiting game, demonstrating to the unions through a total absence of concessions that the strikes are purposeless, contrasting the tranquility in the private sector with the disturbances in the public, and losing no opportunity to point out the cost to the taxpayer of the disorganization in the state corporations and utilities. By refraining from recourse to the courts through invocation of unpopular "cooling-off" legislation, it has left the ground free for development of grassroots opposition to union leadership whose policies are clearly achieving nothing. At the same time, it has been carefully examining strike legislation in force in other European Community countries, in case firmer action becomes necessary or politically advantageous.

The extent to which Greece's economic ills are concentrated in the public sector is

## Greece, A Place To Explore For Investment Opportunities

In addition to government policies, there are a number of structural reasons why American firms should consider business and investment in Greece:

- **Geographical location**, at the crossroads of Western and Eastern Europe, the Middle East, and North Africa. European Community membership allows tariff-free access to an affluent market of more than 320 million consumers. There are good relations and easy approach routes between Greece and its Balkan neighbors and countries of the former Soviet bloc, and normalization of relations with Israel has been accomplished without damage to Greece's traditionally close ties with the conservative Arab states, in some of which, as in countries of Africa, there are thriving Greek communities.

- **The existence of a sufficient work force**, backed by managers, technicians, and engineers trained abroad and fluent in English, with wage rates still substantially below those that are found in the more developed European Community countries.

- **An extensive system of support services**, including Greek and foreign banks and other financial institutions, direct air communications from Athens to most of the key world business centers, and ready availability of quality housing and office accommodations at relatively modest rents as well as of foreign schools

and universities for the children of resident business people. While telecommunications are still far from satisfactory, their improvement is one of the government's highest priorities.

- **A pleasant climate**, almost no violent crime, insignificant problems with drugs and AIDS when compared with such problems in other European capitals; and, for relaxation, sports facilities ranging from golf and tennis to yachting, hundreds of restaurants representing all national cuisines, and the easy opportunity to visit the incomparable Aegean and Ionian islands.

- **A range of investment incentives**, and a public service that is being bullied into greater efficiency, at least in its dealings with foreigners.

Detailed information on the legal aspects of doing business in Greece, including trade and investment incentives as well as company, tax, and labor law, can be obtained in English from several sources. They include the Ministry of National Economy, the economic and commercial offices of the Greek Embassy in Washington (1636 Connecticut Ave., N.W., Washington, D.C. 20009; call: 202-745-7100; facsimile: 202-265-4291), Greek and foreign banks, the American-Hellenic Chamber of Commerce, and the offices in Athens of major international accounting firms.



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demonstrated by the good heart in which industry finds itself and by the sustained boom in the small but rapidly growing Athens Stock Exchange.

Net financial results of Greek industry as a whole in 1988, the latest year for which figures are available, improved for the third consecutive year even though return on net worth was still a modest 4.6 percent. Industry sources say much the same picture applied last year also.

At the same time, Greek industrialists are investing, particularly in plant expansion and modernization, to prepare for the challenge of the single European market; merger activities are accelerating, among Greek enterprises or involving European counterparts, to secure the needed economies of scale, while share purchases by non-Greeks through the stock exchange are becoming an increasingly important source of foreign exchange.

Greece's powerful shipping industry,

much of it based abroad, is preparing its own initiative: It has scheduled an international investment conference for the fall as part of a government effort to turn Piraeus, a principal port, into an international business and financial-services center.

**T**ourism is expected to be the next boom sector—for investments in deluxe hotels, marinas, casinos, golf courses, and other sports facilities—following a government decision to open this sector fully to private enterprise.

Even as a destination mainly of low-cost package tours, Greece still earns around \$2.5 billion directly and another \$1.5 billion indirectly from the tourism industry. These figures are expected to rise spectacularly, once air travel to Greece has been deregulated, cruise operations in the Aegean have been freed from cabotage restrictions, and Greek and foreign private

capital has been enlisted for the provision of the kind of facilities required by quality tourism.

Greece wasted the first decade of its EC membership. It is now clearly resolved to make up the lost ground at a run, based on an expectation of stability that is reinforced also by the return to the presidential palace of veteran statesman Constantine Karamanlis for a second five-year term as president of the republic.

Karamanlis laid the basis of Greece's industrialization as prime minister during 1955-63, restored democracy after the 1974 collapse of the seven-year dictatorship, secured Greece's accession to the EC, and served as president from 1980 to 1985. Still vigorous at age 83, he enjoys an unparalleled reputation in Greece and internationally. His presence once again as head of state has set a kind of seal on the new beginning at the beginning of the new decade.





## LESSONS OF LEADERSHIP

# "Business Is The Emancipator"

By Glen Macnow

It's late on a Friday afternoon, and J. Bruce Llewellyn is barking instructions into the telephone. His colleagues are headed home from midtown Manhattan, but Llewellyn is working at full throttle, trying to scratch a few more items off the agenda he hastily scribbled on an envelope over lunch.

First, there's this deal on the phone, a conference call with bank executives who want to purchase the 17-percent public share of a mutual fund he oversees. Then there's Mahatma Gandhi's

great-grandson waiting in the hallway; he's trying to arrange for Llewellyn to meet with Nelson Mandela. There's a cable-television bill he's monitoring as it moves through Congress, and a report due from his bottling plant in Philadelphia—and somehow he's got to get to Denver by Sunday for a meeting of the board of directors of the Adolph Coors Co., the big brewing concern.

Is this a busy day? he is asked. "Not really," he says. "This is pretty much a typical day in my life." Then, quickly turning back to the phone, he growls:

"Listen, I've got other work to do. Let's get down to the basics and get this thing done."

He is clearly annoyed by the slowness of the conversation. J. Bruce Llewellyn is used to moving fast.

Llewellyn has moved fast his entire life. The son of working-class Jamaican immigrants, he joined the Air Force at 16, during World War II, and emerged a first lieutenant at 21. He has worked successfully in law and municipal government, owned a supermarket chain in the Bronx for 15 years, and served on more than a dozen boards, ranging from Coors to the United Negro College Fund.

These days, Llewellyn is deep into his fourth or fifth career, depending on who's counting. At age 62, he is amassing a business empire that includes:

- The Coca-Cola bottling operations for the Philadelphia and Wilmington, Del., areas. Since Llewellyn took over the Philadelphia Coca-Cola Bottling Co. in 1983, it has grown from the company's 15th-largest bottler to the eighth-largest. The key? Adding new routes and more trucks so that his products get into every mom-and-pop store in the region. Sales in 1989 topped \$240 million—up 50 percent from just two years earlier.

*Minorities can lead the way to a colorblind society, J. Bruce Llewellyn says, by mastering economic tools.*

- WKBW-TV, the ABC affiliate in Buffalo, N.Y. Llewellyn and partners bought the city's top-ranked station in 1985 for \$65 million. Although he agrees with former Federal Communications Commission Chairman Newton Minow's evaluation of television as "a vast wasteland," Llewellyn goes on to say: "You can't argue with profit margins of 30 percent." He has long-term plans to buy five or six more stations. "I'd like to spread them out so that I don't have to worry about one part of the country slumping," he says.

- South Jersey Cable, a system serving more than 170,000 subscribers in the Cherry Hill, N.J., area. Llewellyn and two partners plunked down \$420 million in 1989 to acquire the system, formerly New York Times Cable, which is considered one of the most technically sophisticated in the country and a leader in pay-per-view programming. Llewellyn bought a 20-percent share and serves as chief executive officer of the operation.

*Black Enterprise* magazine ranks the Philadelphia Coca-Cola franchise as the nation's third-largest black-owned business. Add his other holdings, and Llewellyn probably ranks behind only Reginald Lewis, chairman of TLC Beatrice International Holdings, in terms of black economic power. Still, despite standing 6 feet 5 inches and sporting a distinctive white goatee, Llewellyn can walk anonymously down any street—including Wall Street. ("Actually, that's not true," he laughs. "People keep mistaking me for James Earl Jones.")

Certainly, Llewellyn is less well-known than some of his own relatives, including sister Dorothy Cropper, a New York State Supreme Court justice, and cousin Colin Powell, chairman of the Joint Chiefs of Staff.

And he is uncelebrated compared with many of his investors, a roster that includes comedian Bill Cosby, retired basketball star Julius Erving, former football great O.J. Simpson, composer Quincy Jones, actor Mr. T, and members of the singing Jackson family (but not brother Michael).

Assessing that all-star lineup, Llewellyn says: "Basically, they're a

Glen Macnow is a newspaper writer who covers the business of sports.



PHOTO © NAVE SOURCE

Llewellyn—seen here in his New York office—has won success in fields ranging from broadcasting to bottling.



## LESSONS OF LEADERSHIP

pain. They don't know business, so every time we do a transaction, there's another lawyer or accountant of theirs calling in. It just chews up time. I've vowed not to use this entourage of famous people in the future." He exempts only Erving, who has been actively involved in the Philadelphia Coke operation, from his blanket criticism.

Fame is not what drives Llewellyn. Achievement is.

Llewellyn was born in East Harlem and grew up in White Plains, N.Y. He remembers his father's warning: "You're going to have to work twice as hard to get half as much." His parents also told him that, although prejudice might never go away, it was no match for education and ambition.

He learned that lesson well. From his military days (when he smoked a cigar to make people believe he was out of

dence, got to believe that you are as good as the next guy. That's why integrated schools are important—so that black kids and white kids and Oriental kids can learn to hold their own and be competitive with the other guys.

"Third, you've got to have the education to do what you want to do. You can't 'b-s' your way through life. You've got to have the skills."

All of that may sound like a high-school guidance counselor's lecture, but Llewellyn is sincere. His concern over this country's education system stems from his days as owner of the Fedco Foods Corp. supermarket chain, which he built from 10 to 27 stores. As part of the interview process for teenage job applicants, Llewellyn would test their knowledge of basic mathematics: If a can is marked three for 29 cents, what is the cost of one can?

ence, economics—areas that will be on the cutting edge of the 1990s."

He maintains that the capitalist system offers opportunity to minorities who help themselves, and he espouses a revised sort of golden rule: He who owns the gold makes the rules. "Business is the emancipator of a group of people," Llewellyn says. "The trick is to get your hands on the levers, on the money, to get the guy off your back. That's the real world, and that's the plight of the black community—they don't have the leverage."

**T**hese days, Llewellyn is one of the few blacks with his hands on the economic control panel. But it didn't always figure to be that way. As a young man, after receiving his degree from New York University Law School (he also has two graduate degrees from Columbia University), he concluded that blacks were not welcome at Wall Street law firms. So he spent eight years in New York City government, mostly at the Manhattan district attorney's office, moving up through the ranks and acquiring a network of allies.

Llewellyn went into business in 1969, when he got a \$3 million loan to buy the Fedco chain (he eventually sold it for \$20 million). He returned to government from 1978 to 1980, though, as president of the Overseas Private Investment Corp., a federal agency that encourages American investment in developing countries.

His assessment of the public sector? "I didn't like it," he says. "There was too much red tape, too little innovation, and the people working in it seemed lazy and not too bright."

Llewellyn is equally blunt in his appraisal of private industry. He looks at the state of American business, and he sees mistakes. A sampling:

**Racism.** "These days," he says, "blacks can get into the candy store, we can even manage the candy store, but there's still a glass ceiling holding us down when it comes to owning the store." Llewellyn believes that lending institutions remain reluctant to finance blacks, largely because there is a history of exclusion. "A lot of bankers don't want to be in the position of taking what they believe to be a risk by lending to some black guy who's not part of their network," he says. "They figure, 'Things have worked for me the way I've done them, so why change now?'"

Still, he believes things have improved vastly in the past decade and will continue to do so as blacks show themselves able in new areas. He cites himself as a pioneer: "When I bought



PHOTO: GUY A. LOPEZ

**Basketball great Julius Erving and other celebrities have joined Llewellyn as investors in the Philadelphia Coca-Cola operation.**

his teens) until now (working the phones on a Friday afternoon long after everyone else has gone home), Llewellyn has always made a practice of working harder than the next guy. "In Bruce's mind," says his attorney and friend, J. Burton Rubin, "the biggest sin is being unprepared."

Llewellyn lists three rules for success:

"First, you've got to be driven to do the best you can, given the job you've got. Don't even look to the next job. That will come on its own when people start noticing how well you're doing where you are.

"Second, you've got to have confi-

"They'd say 22 cents, 24 cents," he recalls. "These were juniors and seniors in high school. We were rejecting—literally—seven out of 10 applicants. And if I couldn't hire them, it wasn't that they were just unemployed—they were unemployable for the rest of their lives."

Now that he carries economic clout, Llewellyn sponsors several scholarship programs. One, a \$250,000 fund at the City University of New York, offers \$8,000 a year in aid to doctoral students—with certain stipulations. "I told the school, 'No black studies, no social-work students,'" Llewellyn says. "I want business students, computer sci-





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## LESSONS OF LEADERSHIP

New York Times Cable, we borrowed over \$300 million. We paid it back—we didn't take the money and run. That establishes a track record and helps all minorities. It dampens the enthusiasm for racism."

**Complacency.** American business, Llewellyn argues, has generally grown too comfortable and too accepting of mediocrity. Many companies not only lack innovation, he says, but also lack the drive to excel. "When we took over the Coke bottling business in Philadelphia, the previous owner told us that things were going about as well as they could," he recalls. "Well, we studied things and determined that even as solid a product as Coke suffers unless the owner really hustles."

Llewellyn stressed execution—getting his products on as many store shelves as possible, especially in the long-ignored inner city and outlying rural areas. He also chased new accounts—such as Evian and Saratoga mineral water—and pushed new products. "We were able to take Barq's from nowhere to the largest-selling root beer in Philadelphia in a very short time," he says. "How? Pure hustle."

**Selfishness.** Too many top executives, Llewellyn argues, are unwilling to delegate authority and extend equity to the people working for them. The result: a diminished sense of pride among high-ranking employees.

"Some CEOs say, 'It's my business, why should I give up control?'" he says. "But I've always found that if you really want your people to have a concern about the business, they should have a stake in it. If you want good managers and don't want them leaving, if you want them motivated to look at this business as their own, give them an equity stake."

In Llewellyn's firms, 10 to 15 percent of the stock is split among top executives, under the proviso that anyone leaving the firm must sell his or her share back to the company.

**Squeamishness.** This criticism is largely aimed at black business leaders, who, he says, tend to look inward and limit their ambitions to selling consumer goods to other blacks. He worries

about a failure of black businesses to become integrated in the overall U.S. economy.

"Black businesses have to graduate into the ultimate—which is that we are no longer a black business in the sense that we serve the black community, but we are a black-owned business selling to everyone. If you don't do that, you're walking away from 90 percent of the population."

"I learned that by being a grocer. I was serving a million people in the South Bronx and Harlem—one-seventh of the people in New York City. If I was

really good at what I was doing, I would have caught them all. I'd have said, 'You want gefilte fish, I got it. You want burritos, I got them for you. Whatever it is, I got it.'"

So why isn't this happening more? "Because you don't know how you're going to be accepted outside. You got a nice operation, why go

beyond that? It's tough to take risks. But you've got to do it."

**T**hese days, Llewellyn takes fewer risks than he did as a young man. The broadcasting business, like Coke, is safe and profitable, "almost like owning a government franchise," he says. He disapproves of much that is on the tube—he bars his 12-year-old daughter from watching TV on weekdays—but he will not try to force his own programming ideas on network moguls or the marketplace.

"You've got to look at life in terms of what can be done," he says. "If you focus too much on what ought to be done, you end up knocking yourself out and getting angry."

It is after 5 on a Friday afternoon. The bankers who want to buy Llewellyn's mutual fund have agreed to have their lawyers call his lawyers. The cable bill remains stalled in Congress. Mahatma Gandhi's great-grandson continues to wait outside the office. Llewellyn's secretary buzzes with a reminder—he's got to be at CNN Center in Atlanta for a meeting next week.

"It's no big deal, the stuff I do," he says, crossing one item off the agenda and adding another to it. "What's important is that you have a good thinking and reasoning pattern. The hardest part for me is remembering where I'm supposed to be and at what time." ■

*Business is the  
emancipator of a group  
of people. The trick is to  
get your hands on the  
levers, on the money.*

—J. Bruce Llewellyn





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# Family Business

*Lessons to take home from the business; making change a firm tradition; sorting out the squabbles of the second generation.*

## COMMENTARY

### What We Learn From Business Families

By Sharon Nelton

One of the things I like about covering family businesses is that the rest of us can learn so much from them to help our own families function better. This is not to say that all families in business together function well. But it is such a challenge for people to combine business with family life that when they do it well, they provide a wonderful model for all families, in business or not.

Here are some of the things I've learned from business families:

**Address the difficult issues.** Sometimes other family members won't want you to, and you may be labeled the "bad guy" if you do. But you should be willing to take the heat; most likely it will pass.

Against another family member's wishes, I sat my parents down a year or so ago to encourage them to talk more about their wishes for their lives as they

grow older. It had been a long time since we had had such a discussion, and I thought things might have changed. I was warned by the reluctant family member that such talk would just push my father into the grave. And I knew from past experience that such topics are especially hard for my mother.

Instead of resistance from my parents, however, I found them very willing to talk. The answers were elusive, but the communication between Mom and Dad and me was open in a way it hadn't been before, and we promised to keep talking. The experience made me feel closer to them, and, after hearing about the discussion, the reluctant family member seems readier, too, to be a part of such conversations.

**Plan your estate, write your will,**

**and keep both up to date.** Oops. Let's see, now. Since I last revised my will, my children got married, and I became a grandmother and acquired a second home. Estate planning may not be as complicated for me as it is for a family-business owner, but I see I still have some work cut out for me here.

**Practice "conflict management."** Couples in business together have told me that being in business forced them to learn how to handle their disagreements at work. Once they learned that, they could apply the same principles to

disagreements at home. "It saved our marriage," said one husband.

We all have conflicts. The point is to manage them constructively. A few of the many things that help: Set aside time to discuss specific disagreements; don't let them "bleed" into other activities. Keep in mind that you care

about the other person, and say so; make it clear that you still love the other even though you may disagree. Look to see if a "system" is aggravating the problem—for example, lack of clearly defined responsibilities may lead you to believe the other isn't doing his or her share. Attack the issue, not the person. And don't blame.

**Hold family-council meetings.** Even in a nonbusiness family, such meetings can help family members keep in touch with one another's desires and find ways to offer mutual support. I intend to have revised drafts of my estate plan ready in time to discuss them with my children when we're on vacation at the beach in September.

There. I've said it in print. I guess I have to get to work.



Nelton: "Attack the issue, not the person. And don't blame."

## PLANNING

### Make Change Your Tradition

By Craig E. Aronoff and John L. Ward

S.C. Johnson & Co. is one of America's great family businesses. Sam Johnson tells of how his father resisted his idea of introducing a home insect killer. The company was in the wax business, the elder Johnson explained. Ultimately young Sam prevailed against his father's tradition-bound view. He added to the company's product line and, in so doing, changed its strategy. The product, by the way, was Raid.

Consider another story. The son of a business founder was tearing his hair out because the company was failing to meet its delivery schedules. He realized that the failure was the symptom of a complex problem. The company's operations people made little effort to solve the delivery problem because they saw it as a customer-service matter to be handled by the sales force.

Why? Because the founder had always stressed customer service even if it meant salespeople making deliveries on their way home at night. And that's just what they did. Indeed, the father praised salespeople who would go out of their way to respond to customer problems, and he fired those who didn't. As a result, the sales staff spent too much time on customer problems and too little on sales calls.

Every time the son tried to address the problem, his suggestions were rejected. "That's not how we do things here," he was told. He called the problem "tradition" and wondered if he would be able to save the company from itself.

One of family business's greatest strengths is tradition. It is also a great weakness. Today, when survival and success depend on an organization's nimble adaptability, change has never been more critical.

The Burberrys Ltd. clothing company's slogan is: "Where style is a tradition." We believe that family businesses can cope with the dilemma of change set against tradition by adopting a philosophy represented by a similar motto:



"Change is our tradition."

Acting on that philosophy, however, can be difficult. Family businesses have many traits that discourage change. These often include:

- Deeply entrenched values.
- Long tenures by each generation of leaders.
- Long-term loyalty of managers and advisers, resulting in the limited introduction of new faces.
- Autocratic or paternalistic leadership style.
- Insulation from changing conditions outside the business.
- Conservatism relative to risk and debt.

Each of these traits has advantages. Too often, however, they result in a culture where tradition overwhelms receptivity to beneficial change.

When a new generation takes charge



ILLUSTRATION: JIM STARR

of a family business, we recommend that much thought be given to building on the values of both tradition and change. The challenge is to develop a rich but malleable business culture.

Introducing change is a subtle art. Strategic changes cannot be successfully implemented unless the culture has first been prepared to accept change.

Think evolution, not revolution; transition, not transplant. The first step is not the announcement of a bold, new strategy or a new set of ways that things will be done around here. The first step is to preserve as much tradition as you can. The successor's task is to build a desire for change into the existing tradition in a way that makes it seem that seeking change was always a part of the business's culture.

The sort of cultural repositioning we envision is achieved by reinterpreting the past. Examine your company's history and lore. No doubt tales exist of how critical challenges in the business's past were overcome. In many cases, the stories emphasize someone's (usually the founder's) genius, strength, or persistence. When you examine corporate

legends carefully, you'll find that many deal with situations that required change. Retell those tales, but revise the moral of the story to emphasize the value of change.

Most businesses also have slogans or "words to live by" that were repeated incessantly by the founder. Rephrase them to permit more creativity. Instead of "A good salesman will deliver it himself," say, "A good salesperson finds solutions to a customer's problems." The tradition of service is preserved, but instead of prescribing a specific activity, the new slogan emphasizes individual initiative and creativity.

While reinterpreting the past, introduce ways to reinforce the behavior you want now. Laud those who question the status quo. Celebrate new ideas. Create awards for the best initiatives. Name the awards for the company's great leaders or employees from the past. Introduce the awards at a ceremony, and explain that the awards' namesakes "represented the company's tradition of creative responses to challenges and opportunities."

Finally, become an example of the behavior you seek to instill. For example, you could tinker with your management system (such as incentives or performance-review forms) to show subtly that procedural change is normal.

The goal is easy to state: Preserve and enhance tradition as much as possible while exalting change as part of that tradition. Accomplishing this goal is challenging, exciting, and fulfilling.

Founders of businesses are seen as heroic. But as Joseph Campbell explains in his book *The Power of Myth*, there is a second kind of hero, the revitalizer of tradition. "This hero reinterprets the tradition and makes it valid as a living experience . . . instead of a lot of outdated clichés," he says. "This has to be done with all traditions."

By revitalizing the family-business tradition with change, successors secure not only the founders' heroic status but their own as well.



PHOTO: T. MICHAEL KEZIA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.

## Mark Your Calendar

### Sept. 30-Oct. 2, Pittsburgh

"Fathers and Daughters in Family Business," a workshop to be presented by Matilde S. Salganicoff and Barbara S. Hollander of the Continuous Education Program for Women in Family Business. For information, call (412) 276-6651.

### Oct. 2, Oshkosh, Wis.

"Building a Successful Family Business," a one-day seminar offered by the University of Wisconsin-Oshkosh. Contact UW-Oshkosh Business Development Center, Oshkosh, Wis. 54901; (414) 424-1453.

### Oct. 17-20, Atlanta

"Celebrating Family Business," annual conference of the Family Firm Institute. Speakers include family members from Huntsman Chemical and Spec's Music, a Florida retail chain. Panel topics include minority family businesses, career planning, divorce and the family firm, and recruiting and retaining key nonfamily managers. Contact the Family Firm Institute, P.O. Box 476, Johnstown, N.Y. 12095; (518) 762-3853.

### Nov. 14-16, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar for business owners, their spouses, successors, and key managers. To be conducted by nationally known family-business consultant Léon Danco. Contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

### How To Get Listed

The Family Business Calendar lists national and regional events that are open to the public. Send listings three months in advance to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.



## CASE STUDY

## Family Squabbles Spoil The Fun

When her husband Peter died, Alice was left with six children, a start-up distribution business, and very little cash. It has been eight years of hard work and constant worry, but today the business is booming, and Alice, 62, is ready to slow down. She should be pleased, but instead she feels trapped.

Her three daughters, who work in the business, squabble like small children. They no longer fuss over toys, they carp over tasks, salaries, and decisions. Feuding has replaced the cooperative effort they once shared. They all come to Alice to complain, and she feels like a referee. Worst of all, the daughters no longer seem to have fun with each other during work or at family gatherings.

The three are all good people and solid workers. Alice loves each but does



ILLUSTRATION: JIM STARR

not understand the escalating tensions. She wonders why they can't pull together, work hard, and get the job done. Her daughters' animosity affects not only Alice's well-being but also the morale of the nonfamily employees. And, if the looks on the faces of her daughters are a clue, they are pretty miserable, too.

Paula, 30, is a sounding board for and assistant to Alice in all administrative tasks and has been since the day Peter

died. She has been available to help in any way needed. Together, Paula and Alice pulled the business through the early years.

Leslie, 28, is terrific at sales. Paid on commission, she now has the largest income. She came back into the business 10 months ago after a three-year break in Colorado "to find herself." It was tough to get along without her. While gone, she worked for a large corporation, and she came away with many ideas for improving the family business. Eager to implement them, Leslie has suggested she buy the company, and her sisters are incensed.

Chris, 26, who is responsible for filling orders, works in the warehouse, where she began during high school. Now that her children are in school full time, she wants more responsibility. She has been pushing for a new role but cannot get her mother to listen.

What can Alice and her daughters do to restore harmony and enjoyment and move the business forward?



PHOTO: T. MICHAEL KEZA

### Deal With Emotions

*Mary Dana Korman, an organizational consultant with the Minneapolis-based Hubler/Swartz division of McGladrey & Pullen, a national accounting and consulting firm:*

Alice needs to stop playing referee and insist that her daughters talk with one another in order to resolve their personal issues.

Lack of structure is exacerbating the conflict. It is crucial that job assignments be clarified, responsibilities be defined, and decision-making authority be delegated.

But rational planning is not enough. Below the surface are feelings and emotions that need to be brought out and discussed. Paula is likely to have some unspoken gripes about Leslie's years of "playing" in Colorado while she stayed home to help out. After all her loyalty, she is angered by Leslie's offer to buy the operation and become sole owner.

Leslie may be seeing the others as less competent than she is since they have never worked elsewhere. Her impatience with their unsophisticated ways of doing things adds tension. Resentment that the others do not value her advice or hear her concerns is fuel for the emotional fire.

Chris may be hurt and disappointed that Leslie has had the chance to sell and make more money, while she feels stuck in the warehouse job. She may feel that her mother is favoring Leslie and Paula with better opportunities.

They need to discuss their working relationships and allow expression of feelings so they can be finished with old history and can re-establish a team spirit.

They all must learn to ask for and give recognition. And they need to commit themselves to addressing issues, not as children but as adults with a problem-solving attitude.



PHOTO: © ROBERT HOLMSTROM

### Develop A New Vision

*Albert Thomassen, a faculty member of the School for Management and Organization, University of Groningen, The Netherlands, and president of the Family Business Network in Europe:*

Short-term solutions to company problems was the name of the game as Alice and her daughters struggled to make their business survive. But they never dealt with the issue of what to do after survival, so conflicts now naturally arise as Leslie and Chris start developing their own ideas.

What is missing? First, it appears that since Peter's death, no one has looked at the future and asked who can give direction and meaning to the business now. And whose leadership is acceptable to both the family members and the nonfamily employees.

Second, the family hasn't established a new vision for the business beyond survival. What do they want for the business? What roles do Paula, Leslie, and Chris want to have in the company? Alice has an excellent opportunity to step back. She must facilitate the development of the second-generation family business, but not as the person with all the answers. Those are largely up to the children.

Out of the new vision, a business plan and a management structure—including the choice of a leader—must be developed, based on what is needed and on what the children want. As a result of this process of creating a vision, developing a plan, and building a structure, the members of the second generation can discover what they want to do and can commit themselves to it.

And Alice can finally slow down, turning over management to her daughters and taking satisfaction from having helped them find new meaning in the family business. ■

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © 1990 by the Family Firm Institute, Johnstown, N.Y.



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# Small-Business Computing

*What's new and useful about an increasingly essential business tool.*

By Ripley Hotch

## ACCOUNTING

### The Most Desired, Troubling Category Of Programs

The principal reason smaller businesses buy a computer is to help with accounting. And the PC can certainly do that, faster and better than anything since the hand-held calculator. Unfortunately, every business is different—not just in large ways (manufacturing vs. service), but in many small ways—and no one accounting program can be all things to all businesses.

Edward A. Morrow Jr., owner of Northshire Bookstore of Manchester Center, Vt., needs a program that will handle his mail-order business and generate shipping and billing documents. But he doesn't want to change his current industry-specific general ledger.

Thomas Sullivan Jr., vice president of Sullivan Candy and Supply in Hibbing, Minn., needs to upgrade from a single 5-year-old IBM PC with a hard drive and an accounts-receivable package to a network of five machines and a full accounting package that will also track sales and commissions.

Although it might seem that a custom-written program would be necessary, not many small businesses can afford the expense.

On the other hand, if you choose a popular and much-used accounting program, it probably won't fit precisely.

But many of the programs are very good. You know they could help you if you could just get the right one. There are several ways to get what you need without trashing your budget.

#### Leave yourself an upgrade path.

Charles Chewning Jr., president of Solutions, a Richmond, Va., accounting consultancy, says that there is a 50 percent chance that a company will have to replace its accounting system within three years because of one inadequacy or another. "While accounting is relatively simple in concept, the inclusion of what I would classify as management functions, together with restrictions established by the programming logic itself, has made automated accounting considerably more complicated than its manual equivalent."

So you might have to go from simple to more complex. If you have limited resources (cash, machinery, and peo-



**Automated accounting programs—here, Accpac BPI—offer help screens, top, and many types of financial reports.**

ple), you might want to take the safe route and start with a company that has a range of products. For example, Computer Associates (CA) has put together the most comprehensive series of accounting products offered, under the general name Accpac.

There are four Accpac packages: **Bedford** (\$249), its Macintosh equivalent **Simply Accounting** (\$349), **BPI** (\$349 per module), and **Plus** (\$795 per module). Each serves different levels of need. CA bought all these programs from other vendors and has spent some time making them compatible so that a user whose company is growing can follow a smooth upgrade course.

One consequence of the purchases is that the packages don't look or feel the same. CA doesn't regard this as a problem, saying that it won't take long to learn a few new commands or changes.

Accpac Bedford Integrated Accounting is a simple program that requires a basic understanding of accounting to use, and it will work well on a system that does not have a hard drive—a rarity now. It is designed for the very small business with limited accounts,

though it performs all important accounting functions. The one program contains a general ledger, accounts payable and receivable, payroll, inventory, and job-costing routines.

Bedford's manual is tightly written and clear (and the company includes a good accounting primer with the package). I would like to have seen some on-line help available; on a floppy-disk-capable program, that's asking too much. One useful feature for a small business is the graphic and custom reporting program, which gives a workable series of simple graphs in a variety of formats and produces serviceable income and balance sheet reports. For bare-bones bookkeeping and accounting, Bedford will work fine.

The next step in the series is Accpac BPI Accounting. Far more comprehensive than the Bedford program, BPI requires a hard disk. It also comes in separately purchased modules. BPI contains a general ledger and modules for accounts receivable and payable, payroll, inventory, and invoicing. You can have a number of companies and set them up using charts of accounts that are standard for your industry.

BPI has a good on-line help facility and also gives users a plainly written booklet on accounting principles. As with any good accounting program, it prints checks (including laser checks) and invoices, and a range of reports.

At the top of its line, CA's Accpac Plus has GL, AR, payable, payroll, inventory, order entry, sales analysis, job costing and invoicing, as well as a number of reporting and management functions. It will handle larger and more complicated businesses, and its modules can be used independently.

Because CA is so large, it has attracted a number of independent developers who have created programs for Plus that handle problems specific to a number of businesses—medical offices, property management, waybill label printing, auto dealers, and on and on.

The advantage of all of this is the range of support that such a company can offer. Accpac Plus becomes a general "engine" that more specific solutions can be hooked to.

#### Use a consultant.

Most consultants can't know more than



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## ACCOUNTING

a few packages well. Their depth and detailed knowledge is great for those programs, but you may miss the one you need.

Charles Chewning says the problem bedeviled him until he created **The Accounting Library**, a kind of comprehensive computerized consultant on accounting packages. The Accounting Library has incredibly detailed information (each software company answers a 900-item questionnaire) on 70 accounting programs (so far). To make an inquiry, you mark an on-screen list of features, giving each a weight according to its importance to your operation. Then it matches your list against all the programs, and it ranks those programs that come closest to your requirements with a percentage.

Chewning's \$479 package is massive—the program itself and five volumes of advice and detail. There is an honest description of the methodology; a great discussion of the process of automating accounting; a book of questions that you ought to ask in the process of automating; literature from all the vendors, with their names, addresses, and phone numbers; and, of course, an operations manual.

Even though the library has been out only a few months, it is already being updated with more programs and some more features in the software. Chewning plans to update frequently; for the first six months, updates are free. After that, there's an annual subscription fee of \$100.

The Accounting Library will probably find its heaviest use among consultants, since it grew out of Chewning's own frustrations as a consultant. "I basically wrote the book to help me," he says. "Then I saw it as a way for clients to help themselves."

We ran the library on several sets of requirements, and it really does perform as promised. It told us that Edward Morrow should look at Data Pro Accounting Software (Tampa), IBM Platinum series (Advanced Business Microsystems, Irvine, Calif.), Excalibur+ Premier (Armor Systems, Maitland, Fla.), and Mica IV (Micro Associates, Port Arthur, Texas).

For Tom Sullivan, it suggested Keystone Financial Accounting (Keystone Software, Houston), Macola Account-

## CORRECTION

In the time between writing and appearance in print, several telephone numbers changed in our August story on shareware ("Software For Sharing"). One company, RSM Inc., no longer has a listed number. JDX DCS has moved, and now is at (619) 949-6098. People's Choice has had a change in its number to (800) 999-0471. We regret any inconvenience.



ing Software (Marion, Ohio), Data Pro, and Accpac Plus.

Chewning emphasizes that The Accounting Library is only a guide to be used to narrow the field of possibilities.

Major accounting firms are using the library already. If you are talking to a consultant, you might ask if he or she is using The Accounting Library, because it will help you both to do your jobs better.

#### Find a program suited to your industry.

Cutting down the range of an accounting program may well increase its serviceability to you. One such is **Service Industry Accounting** by Sybiz, published by Brown-Wagh, Los Gatos, Calif. It works on both IBM and Macintosh machines and lists at \$495.

It's an appealing name. Too many software programs have jazzy names that in the end don't tell you what they do. But this one says so plainly and simply.

SIA represents a set of "books" and "job cards" graphically on the screen.

When you open one of the books—sales, for example—you see the "book" opened to the first page. You also have an index to all the entries of the book, arranged alphabetically. When you move the cursor to the right to the next page, the pages "turn."

On the job cards, you can track all the labor for a job, automatically add a percentage to the labor cost, a markup for materials, sales tax, etc. Invoices can be printed and are aged according to whatever period you set up. It will even give a simple graph of a customer's account history.

SIA will print form letters that you create with your word processor, inserting whatever figures you wish; it will print mailing labels, statements, and invoices, and account analyses.

A variation of this theme is the **Service Industry Management System** from Sescor Systems of Lincoln, Neb. SIMS grew from a wholesale industry system. One unusual feature of the program is that it allows you to measure your profitability and other ratios against the Robert Morris averages for your industry (the Robert Morris averages are what the big guys use to check how they are doing against their competitors).

Being able to compare yourself to your competitors on the basis of current accounting information could be invaluable if you are in a fast-moving industry.

#### Check reviews and try programs.

Reviews, such as those we do in *Nation's Business*, can be good general guides to programs. But Robert White-

head, of Southern Tier Software in Jamestown, N.Y., says reviews and notices like ours tend to focus too much on low-end solutions: "The low-end family of business software is designed for very simple accounting and for very small businesses with limited growth expectations, or for the business owner who uses low cost as the selection criterion." Whitehead, who was a consultant for BDO Seidman, installed many accounting packages before beginning his company to market a network accounting program called Giant.

In terms of what they can do, Whitehead says, "all high-end systems are basically the same," but they look and feel different to the user. Reviews can give you a sense of how different reviewers feel about a program that has as much art to its functions as science.

In the end, says Chewning, reviews in publications should be followed by your own review: Put your hands on the product. You can buy demonstration disks for most programs, which are "crippled" but capable of running some pre-entered data. That way you can get a feel for a system's operation.

A good computerized accounting system approaches a total management reporting system. Keeping count of all the numbers and then analyzing them are possible with computers as they never were with a manual system.

Automation can offer the smaller business a chance to be on an equal footing with a big one that has on-staff strategic analysts, but it requires strong financial discipline. If the demand seems great, however, the rewards can be even greater. **B**

*The inclusion of management functions has made automated accounting considerably more complicated than its manual equivalent.*

—Charles Chewning

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## TECHNOLOGY

# High Technology At Low Prices

By Jon Pepper

**T**he latest developments in the personal-computer market spell continued good news for small and midsized businesses: They are seeing an accelerated trend toward increasingly powerful machines at highly competitive prices. As hardware manufacturers continue to introduce ultrasophisticated products that use the fastest and latest microprocessor designs, prices for all the systems under-

the programs that work with it, you ideally need a personal computer that is powered by an Intel 80386 or i486 processor—usually referred to as a 386 or 486 machine. Although these machines generally have been priced a bit out of reach for some businesses, they are much less expensive than they were even a year ago.

Prices are declining partly because of the growing popularity of the 386SX microprocessor, which is a less expensive version of the 80386. Indeed, 386SX computers are now available for prices that are the same as—or even lower than—those charged for a much less powerful PC with an Intel 80286 chip. In fact, there is little incentive now to buy a machine based on that processor. With a 386SX or better, 2 or 4MB of main memory (which also has dropped in price), and a VGA-class display, you can pilot your business into the '90s with the latest, most powerful software.

Although you may not yet be ready to upgrade your company's software, we do suggest that if you buy any new hardware, you should make sure it uses 386SX, 386, or 486 chips.

One note of caution: Do not get so mesmerized by the new generation of computers that you end up buying one with much more power than you plan to use. For example, if you work away from your business much of the time and want a machine for taking notes, drafting correspondence, or creating basic spreadsheets, a "smart" portable typewriter may make more sense than a much costlier laptop computer.

The most compact of these typewriters is the PWP 7000LT (Smith Corona, 65 Locust Ave., New Canaan, Conn. 06840; 203-972-1471). The PWP 7000LT sports an easy-to-read liquid crystal display (LCD) of 16 lines at 80 characters per line, and it has 50,000 characters of internal memory. Its built-in drive allows storage of longer documents on 100,000-character diskettes. The machine weighs 6.5 pounds, about the same as laptops of the new generation, and like them runs on external power or a rechargeable battery pack. Material created on the PWP 7000LT can be downloaded to a computer system via optional 1,200-baud modem or RS232 port. The retail price is \$599.

*Affordable new options make upgrading your computer system look more attractive than ever.*

However, if power and speed are what you need, the stores are full of good choices for you. In the sections that follow, we evaluate some of them.

## 386SX SYSTEMS

The most cost-effective way to upgrade your hardware to the 386 platform is with a machine using the 386SX chip. It is basically the same as the 80386 chip, but it uses a narrower data path. That



Tandy 4016 SX: a competitive price.

neath the top models are forced down.

This is true not only for desktop and laptop computers but also for key peripherals such as laser printers. While lower prices alone are attractive to businesses, the real benefits go beyond price. The newer generation of software needs machines that offer minimum performance standards considerably higher than the hardware necessary to run the current crop of popular programs.

In the IBM and compatible PC world, the graphical user interface that is attracting the most attention is Microsoft Windows 3.0, which was introduced with much fanfare earlier this year. It is a frank attempt to attract users who have felt more comfortable with the Apple Macintosh. (Much is happening with Apple as well. In future issues, we will cover those developments and also give you a detailed look at Microsoft Windows and Windows application software.)

To get the most out of Windows and



IBM PS/2 Model 80-A31: well-made.

means it can run any 386-specific software but will transfer data just a bit more slowly than its big brother.

Because SX machines are less expensive than 80386-based computers, they are excellent for general business applications, graphics, and even desktop publishing. They are a bit less capable than an 80386 as a choice for a file server, or for extremely data-intensive tasks such as production publishing.

While all SX machines used to have a 16Mhz clock speed, the newest wrinkle is the 20Mhz SX. (Clock speed measures how fast the chip operates, so, in general, the faster the clock speed, the faster the machine. With all other specifications being equal, a 20Mhz SX computer should be roughly 25 percent faster than a 16Mhz SX computer.)

Some choices to consider:

**PowerFlex 20CSX** (Advanced Logic Research, 9401 Jeronimo, Irvine, Calif. 92718; 714-581-6770). This is one of the more powerful SX computers on the



market, thanks to its use of the newer 20Mhz SX chip. All models come standard with 3MB of RAM, which is enough for most common business tasks and enough to run several Microsoft Windows applications simultaneously. A system with a 40MB hard disk, a mouse, and a high-resolution VGA graphics adapter lists for \$2,549. Besides its sparkling performance, another plus for the PowerFlex is its upgradable design. You can remove the central processing unit (CPU) card easily and replace it with a new, more energetic processor, such as a 486, without junking the rest of the system.

**320LX** (Dell Computer Corp., 9505 Arboretum Blvd., Austin, Texas 78759; 800-426-5150). Dell, which only sells its products directly to customers, has built a reputation for offering a good price/performance ratio and strong customer support. The 320LX, which uses the newer 20Mhz 386SX chip, is offered only as a complete system, including monitor, graphics card, and so on. A base configuration, including a floppy-disk drive (either 3.5-inch or 5.25-inch), 1MB of memory, a 40MB hard disk, and a monochrome VGA display system, sells for \$2,599. A configuration with an 80MB hard drive, 4MB of main memory, and a super-VGA color-display system goes for \$3,599.

**Compaq DeskPro 386S/20** (Compaq Computer Corp., 20555 SH249, Houston, Texas 77070; 800-231-0900). Compaq has made a reputation for engineering innovation in the PC world. The 20Mhz DeskPro 386S/20 includes room for five storage devices and has VGA graphics and 2MB of main memory standard, along with a 3.5-inch floppy drive. A configuration with a 60MB hard disk lists for \$4,499, plus monitor. The 386S/20, like all Compaq computers, is built like a tank, evidences excellent attention to detail throughout, and comes with superb documentation.

**Tandy 4016 SX** (Check your phone directory for the address and phone number of the Radio Shack store or computer center in your area). Tandy computers offer a combination of a well-known brand name, competitive pricing, and a nationwide sales and service network via their Radio Shack stores. The 4016 SX, which is powered by a 16Mhz 80386SX chip, has built-in VGA graphics and a 3.5-inch floppy drive, along with 1MB of RAM. Adding a hard drive is easy, thanks to the Integrated Drive Electronics (IDE) technology; you simply slide the disk into an open drive bay and plug it in. The current retail price for the system (without monitor or hard drive) is \$1,999.

**Sun Moon Star 386SX** (Sun Moon Star, Personal Computer Division, 1941 Ringwood Ave., San Jose, Calif. 95131; 408-452-7811). This is a complete turn-key system at a competitive price. The computer includes a 40MB hard disk, a 16Mhz 386SX processor, a 5.25-inch floppy disk, a mouse, and a monochrome monitor (a VGA monitor is an option). What's attractive about this machine is that Sun Moon Star preloads several useful software packages on the hard disk. They include PFS: First Choice (an integrated package with da-



**NEC PowerMate 486/25E: for long haul.**

tabase, spreadsheet, word-processing, communications, and graphics modules), disk utilities, graphics software, and diagnostics. They may not be state-of-the-art software, but they are competent packages that you can use by simply turning on the PC. You also get a 17-minute tutorial videotape, six months of on-site service, and a three-year warranty for a list price of \$2,495.

### 386 SYSTEMS

According to experts' estimates, 386 computers will soon outsell 286 computers and will become the true industry standard. There are several 386 systems available, with speeds that range from 16Mhz to 33Mhz.

Because it features an advanced 32-bit data path along with its 32-bit internal CPU architecture, the 386 is a great choice not only for all general business applications but in particular for use as a file server on a network, or for intensive applications, including desktop publishing, graphics, and large database and spreadsheet applications.

Here are models to consider:

**CompuAdd 325** (CompuAdd Corp., 12303 Technology Blvd., Austin, Texas 78727; 800-627-1967). CompuAdd has emerged as a solid mail-order firm, offering well-made and attractively de-

signed PCs at fairly aggressive prices. The model 325, priced at \$3,195, includes a 25Mhz processor, 1MB RAM, a 40MB hard drive, a 5.25-inch floppy, and a monochrome VGA monitor. The price also includes DOS 4.01 and Microsoft Windows, adding considerable value to the machine. Other configurations are available with more memory, larger hard drives, and so on. Like several other mail-order vendors, CompuAdd offers 12 months of on-site warranty service. Unlike most mail-order vendors, CompuAdd also has a number of storefront locations that offer their equipment at mail-order prices.

**Epson Equity 386/25** (Epson America Inc., 23610 Telo Ave., Torrance, Calif. 90505; 800-922-8911). Epson is still better known for printers than for computers, but the company does offer a full line of PCs that are sold through the retail channel. The Equity 386/25 shows a lot of design and engineering planning, and it is solidly built. With 4MB of RAM, one floppy disk, a 100MB hard drive, and a VGA monitor, the list price is \$7,527.

**IBM PS/2 Model 80-A31** (IBM Corp., 1133 Westchester Ave., White Plains, N.Y. 10604; for more information, contact a local IBM dealer). Even with vastly increased competition and prices higher than those of many of its competitors, IBM is still selling a lot of PCs. The Model 80-A31 is a tower, or upright, configuration with plenty of room for expansion options, mass storage, and so on. A system with 4MB of RAM, a 120MB hard drive, and a VGA display lists for \$11,465. What do you get for all that money? You get an incredibly well-made machine that has first-rate fit and finish, loads of power, and is backed by Big Blue—the world's largest computer company.

### 486 SYSTEMS

Before the 486 chip was introduced in June 1989, many said the chip was so powerful that it probably would be used only in superpowerful computers for niche applications. Not so. A 486 is currently the ultimate in desktop PC power, and the prices are often much more reasonable than you might think.

The 486 chip gets its performance from, among other things, integrating a math co-processor and a memory cache into the main CPU itself. (A math co-processor aids in numeric-intensive operations, and a memory cache allows the computer to hold on to the next data it thinks you will need, so that access is very fast.) If you want a system that offers a lot of growth potential and won't be obsolete for some time, and if you require uncompromis-



## TECHNOLOGY

ing performance, then you want the 486.

Some systems to consider:

**NEC PowerMate 486/25E** (NEC Technologies Inc., 1414 Massachusetts Ave., Boxboro, Mass. 01719; 508-264-8000). NEC has always offered systems that are built for the long haul, and the PowerMate 486/25E is no exception. The 486/25E has a 25Mhz 486 processor, 2MB of standard RAM, and an optional 64K static RAM cache for improved performance. Helping to maximize performance are features such as a small-computer-systems interface (SCSI), an intelligent interface for controlling peripheral devices such as hard disks, CD ROM readers, and tape backup units help maximize system performance. A system with a 118MB hard disk has a retail list of \$12,499, and a 300MB-hard-drive system retails for \$14,999.

**ALR BusinessVEISA 486/33** (Advanced Logic Research, 9401 Jeronimo, Irvine, Calif. 92718; 714-581-6770). ALR is offering a computing solution that combines raw power, plenty of standard equipment, first-rate construction, and a modular CPU. You can begin with a 33Mhz 386 system and change the CPU card (there is a trade-in discount) up through a 33Mhz, 486—currently the fastest i486 chip on the market. We evaluated a system with a mammoth 350MB hard disk and 8MB of RAM, and we found it to be one of the fastest and best-performing systems we have seen. All BusinessVEISA systems come complete with 2MB of memory, ALR's high-performance cache memory, an 800x600-resolution VGA card, a 14-inch color monitor, and both 3.5-inch and 5.25-inch floppy drives. A 33Mhz 486 system with a 110MB hard drive lists for \$10,994. A base 486 system lists for under \$5,000. It may sound like a lot, but this incredible system is priced very competitively.

**NCR 486/MC** (NCR Corp., 1700 South Patterson Blvd., Dayton, Ohio 45479; 513-445-5000). NCR has one of the most attractive 486 machines on the market, a very-small-footprint model that offers top-notch performance, including both primary and secondary memory caches, up to 16MB of RAM, and either a 100MB or 200MB hard-disk drive. With 4MB of RAM and a color monitor, the NCR costs almost \$15,000. This isn't cheap, but it is competitive with other leading systems, such as IBM and Hewlett-Packard. Besides its tiny footprint, the 486/MC is also notable for its use of IBM's MicroChannel architecture. A 33Mhz version is also available.

## NOTEBOOK COMPUTERS

Business users who need computing mobility used to have to make some unsatisfactory trade-offs. Either they bought a laptop with the power and equipment they needed and became resigned to carrying some extra weight around, or they bought a lightweight laptop and lived with compromises in one or more areas, such as screen clarity or computing power.

The trade-offs are no longer necessary. There are now many choices in the so-called notebook computing field,



**GRiD 1450SX:** fast and durable.

which includes systems weighing under eight pounds. Many notebook PCs weigh four to six pounds and offer 286-class power, excellent screens, and good battery life.

The other key development in the laptop market is the emergence of battery-powered laptops with a 386SX chip. These machines are usually heavier than notebook PCs, but they can run more demanding software applications and usually have much larger hard-disk options.

Here are some laptops that are worth investigating:

**Sharp PC-6220** (Sharp Electronics Corp., Sharp Plaza, Mahwah, N.J. 07430; 201-529-8200). Sharp's PC-6220 is a standout machine in every respect. This sleek notebook weighs only four pounds but has a large (10-inch) VGA display screen, a 20MB hard disk, and a 286 processor that runs at a most respectable 12Mhz. There is no standard floppy disk, but the PC-6220 does come with LapLink, a file-transfer program that can be used to swap files with your desktop PC or load software onto the Sharp's hard disk. A portable (1.5-pound) floppy drive is an option. The retail list price is \$3,995, making the Sharp a good choice for price as well as performance.

**Toshiba 1200XE** (Toshiba American Information Systems Inc., 9740 Irvine Blvd., Irvine, Calif. 92718; 714-583-3000). The 1200XE is a notebook that weighs under eight pounds and has a bright screen, though it lacks the VGA resolution of the Sharp. Standard equipment on the \$3,999-retail unit includes 1MB of RAM, a 12Mhz 286 CPU, a fine keyboard, and both a 3.5-inch floppy drive and a 20MB hard disk, along with DOS 4.01, a disk cache, and on-line documentation. If you prefer your floppy drive in your notebook PC, this is a good choice, though it lacks the cachet and the light weight of some other units.

**GRiD 1450SX Laptop** (GRiD Systems Corp., 47211 Lakeview Blvd., Fremont, Calif. 94538; 415-656-4700). GRiD established itself by building extremely durable, fast computers with magnesium shells—PCs that looked great and worked under any conditions. The 1450SX continues that tradition. Powered by a 386SX processor, the unit comes with 1MB of memory, a great keyboard and VGA display, a 3.5-inch floppy, and a 20MB hard disk. A well-designed unit, it retails for \$4,995, though GRiD (which is now owned by Tandy) often sells units at a corporate discount that lowers the price.

**NEC ProSpeed 386SX** (NEC Technologies, Inc., 1255 Michael Drive, Wood Dale, Ill. 60191; 708-860-9500). The ProSpeed 386SX is another 386SX-powered laptop, and it has a configuration that is quite similar to other SX-based portables: 1MB of RAM, a 40MB or 100MB hard disk, and a fine VGA display and keyboard. We found the ProSpeed to be notable not only for its overall quality and performance but also for two other reasons. First, it has a lot of internal expansion room. You can add up to 9MB of memory, and there are three internal expansion slots—a memory slot, a modem slot, and an LTX slot. The latter is an NEC-designed standard for laptop expansion, and there are plenty of expansion options that will fit the LTX slot from both NEC and third parties. Second, the ProSpeed can be used with a desktop "docking station" that includes four standard slots, two drive bays, and intelligent reconfiguration. The latter option automatically reconfigures the system, depending upon whether it is being used with peripherals attached to the docking station or as a portable computer.

## LASER PRINTERS

After business users saw what desktop laser printers could do, everybody wanted one. The crisp, typeset-quality printing and the greater speed (faster



than dot-matrix printing) proved immediately appealing and remain so today. One problem, however, was that lasers were too expensive for many smaller businesses. Now, however, there are many choices at around \$1,000.

Many lasers use a page-description language called PostScript (from Adobe), which typically includes 35 outline fonts—type faces that can be scaled to any size. Though PostScript used to appeal primarily to desktop publishers and was expensive, the increased interest in the use of type among business users (along with declining prices) helped sales of PostScript products.

Some printers to consider:

**Hewlett-Packard LaserJet III** (Hewlett-Packard Co., P.O. Box 10301, Palo Alto, Calif., 94303-0890; 800-752-0900). HP took the market's No. 1 laser printer—the LaserJet Series II—and performed some magic. HP added lots of useful features and then dropped the price in creating the LaserJet III. This printer has too many features to list here, but the two key elements are the resolution-enhancement technology and the scalable fonts. The former is a technique that slightly shifts the dot pattern during printing to create documents that look smoother and crisper than the printer's 300x300 dots-per-inch resolution. The III has eight internal scalable typefaces along with 14 internal bit-mapped (nonscalable) fonts. Throw in eight-page-per-minute speed, excellent paper handling, and a \$2,395 list price, and the LaserJet III is difficult to resist.

**Canon LBP-4** (Canon USA Inc., One Canon Plaza, Lake Success, N.Y. 11042; 800-441-5454). Canon manufactures the printer engines for HP's printers and sells its own line with the same engines. The key difference is that Canon, unlike most other printer manufacturers, doesn't offer any HP emulation—the printer's ability to mimic the printer control codes for the sake of software compatibility. However, the LBP-4 has a lot to recommend it. It has a list price of only \$1,545, with street prices under \$1,000, and it offers four-page-per-minute speed, excellent print quality, and scalable typefaces—one of the few four-page-per-minute printers with that desirable feature.

**Okidata OkiLaser 820** (Okidata, 532 Fellowship Road, Mount Laurel, N.J. 08054; 800-OKI-DATA). The OkiLaser 820 uses LED (light-emitting diode) technology instead of laser technology, but the result for most users is the same: quality printing. This product, designed to be competitive with the HP LaserJet III, includes scalable fonts

and somewhat faster than eight-page-per-minute speed. Emulations include HP LaserJet II, IBM ProPrinter, and Diablo 630, in addition to two paper-input trays. With a list price of \$2,295, this is a printer to check out if you want scalable fonts, quick throughput of documents, and LaserJet compatibility.


**Panasonic KX-P4420 Laser Partner** (Panasonic Co., 43 Hartz Way, Secaucus, N.J. 07094; 800-742-8086). Panason-



Panasonic KX-P4420 Laser: speed demon.

ic's Laser Partner lists for \$1,695, which means its street price should be around \$1,000. Similarly priced printers usually turn out four or six pages per minute, but this machine prints eight pages per minute. The KX-P4420 has 11 resident fonts, which can be printed in either portrait or landscape modes, and it can use any Hewlett-Packard LaserJet compatible soft fonts as well. Standard paper capacity is 250 sheets; an envelope cassette is an option. Print quality is excellent.

**NEC Silentwriter2 290** (NEC Technologies Inc., 1414 Massachusetts Ave., Boxboro, Mass. 01719; 508-264-8000). The SilentWriter2 290 offers affordable PostScript printing in a beautifully designed package. It features eight-page-per-minute speed, HP LaserJet emulation, and Canon's high-performance UX engine. The printer is well-made, turns out beautiful copy, and can work equally well with PCs or Macs. In addition to free phone support, NEC offers three months of on-site service for any user within 50 miles of an authorized NEC Technologies service center. ■

 To order reprints of this article, see Page 71.

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## INSURANCE

# The Rewards Of Risk Management

*Many firms are cutting insurance coverage and adopting methods to reduce their risks of incurring losses.*

By Jane Easter Bahls

**T**he liability-insurance crisis of the mid-1980s—when premiums soared, availability plummeted, and many small companies were nearly crippled—is behind us now. Yet it produced lasting changes in the ways that many firms evaluate their insurance needs and arrange to reduce or at least cover their possible losses.

Property/casualty rates are still generally higher than they were before, and some risks are still difficult to insure, yet business owners are breathing more easily about insurance. Eight out of 10 small businesses now find it relatively easy to obtain the coverage they need, according to a recent survey by the All-Industry Research Advisory Council, an Oak Brook, Ill., public-policy-research group for insurers. For two-thirds of the 1,200 companies surveyed, premiums for property/casualty insurance totaled less than 2.5 percent of sales.

Moreover, in its 1989 Insurance Availability Survey, the Risk and Insurance Management Society (RIMS), a New York City-based national association of risk managers, found that 62 percent of the 1,151 companies surveyed paid lower premiums for general liability coverage in 1988 than in 1987.

Nonetheless, desperate times a few years ago have fundamentally altered the ways that many companies approach the question of business loss. "As the insurance industry contracted, a lot of companies turned to risk management," says Don Kyle, a spokesman for RIMS. Instead of relying on insurance to cover potential losses, many companies are finding ways to reduce and control such losses and absorb some of their costs.

Risk management involves four basic steps: identifying risks, measuring and evaluating risks, eliminating or reducing risks, and deciding how to finance any losses that do occur despite the other steps.

According to Kyle, companies are shifting focus in hopes of avoiding trouble during the next tight market, since the insurance industry generally moves in cycles. Representatives of several



PHOTO: © OOM PICTURE



**Asbestos-removal** operations such as those at Acmat Corp. are too risky to cover, Executive Vice President Henry Nozko Jr. says his construction company was told by its insurer. So Acmat quit the business—and still lost its insurance.

Jane Easter Bahls is a frequent contributor to Nation's Business and other national publications.



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de-France the "Gateway to Europe". So, it's no accident if Paris Ile-de-France Region has become the world's biggest convention center.

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ment possibilities: plots of land with all utilities or turnkey buildings (offices, business parks, research centers, logistics facilities, ...).

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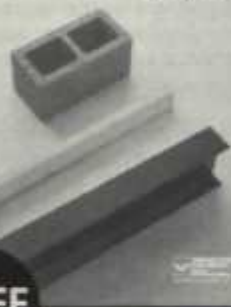
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**INSURANCE**

major insurers reported to *Business Insurance* magazine last January that property and casualty rates were beginning to increase again. Although the insurers predicted more gradual increases in this cycle, many companies are hedging their bets.

"People are beginning to recognize that if they don't take control of their destiny, they won't have any options when the next hard cycle comes around," says Robert Minto, an attorney in Missoula, Mont. He also is president of the newly formed Attorneys' Liability Protection Society, a 10-state mutual insurance company for small law firms. He says small firms are often hardest hit in tight markets because insurers with limited capacity tend to favor their biggest customers.

The experience of Acmat Corp., a construction firm in East Hartford, Conn., illustrates the need for new approaches that many companies feel they must take toward insurance. Five years ago, Acmat received notice that Cigna Corp. would no longer insure Acmat because of risks connected with the asbestos-removal business, which was one of Acmat's operations. When the company protested, Cigna agreed to renew if the company would pull out of asbestos removal entirely. Acmat complied, cutting its revenues in half overnight; then Cigna canceled anyway.

"We went to every single property and casualty company there was," says Henry Nozko Jr., executive vice president of Acmat. "We couldn't even get quotes." The fact that the company had no claims or losses on its record made no difference.

Without insurance, Acmat couldn't bid on public jobs. In desperation, Acmat persuaded four insurers to provide a total of \$6 million in coverage—for \$6 million in premiums.

Fed up, Acmat took matters in its own hands and bought an insurance company—renamed Acstar—to cover its surety bonding and licensing risks. Then it formed United Coastal Insurance for property and general liability coverage. The two companies now insure 500 other construction firms, taking in over \$20 million in premiums.

Thousands of other companies are bucking the insurance industry in their approach to loss. One sign of the shift in focus is the fact that roughly 30 percent, or \$33 billion, of the commercial property/casualty insurance market in the U.S. is now self-insured, with self-insurance growing at twice the rate of traditional insurance. Another sign is the rapid growth of RIMS over the past 15 years; the association says its membership now includes 4,300 companies and service organizations.

"All sizes of companies have risk managers, from a five-person consulting firm to General Motors," Kyle says. He says these companies have recognized that dealing with losses should involve more than just buying insurance. Without the need or the resources for full-time risk managers, he observes, small businesses often assign



PHOTO: EDICK NORTON

**Plant safety** is a major risk-management strategy at the Gillette Co.

the job to their controller, personnel manager, or vice president.

Here are techniques adopted by companies or recommended by experts for preventing losses, controlling them, or financing them.

**Preventing Losses**

Although insurers have long required policyholders to take certain steps to reduce the chances of loss, companies with risk-management programs initiate their own comprehensive measures.

One leader in this field is Bill Mather, director of risk management for the Boston-based Gillette Co., maker of razors, small appliances, and toiletries. Mather, honored by *Business Insurance* magazine in 1988 as Risk Manager of the Year, says Gillette tends to focus more on the cost of risk than on the cost of insurance, and that cutting the cost of risk begins with reducing the number of losses. "We're firmly



convinced that buying insurance is the most expensive way to avoid risks," Mather says. "By far the cheapest way is preventing loss in the first place."

When a Gillette division builds a new facility, for example, it spends considerable sums on alarms and sprinkler systems, assigns security guards to areas where highly flammable liquids are kept, and concentrates on safety in the manufacturing process.

"We spend a lot of time in our department asking people in operations questions that begin with 'What if?'" says Mather. "We keep asking how much trouble the company will get into if something goes wrong."

Of course, it's impossible to prevent all losses. Gillette has chosen to self-insure for routine losses and buy insurance to protect against larger losses. "We focus our critical attention on catastrophic coverage," Mather says. "We try to select deductibles that balance our need to control the amount of money spent on insurance with our ability to pay claims."

Mather is quick to point out that the

principles of risk management used by a large company like Gillette can be applied on a more modest scale by smaller companies. "It's the numbers that are different, not the risks and exposures," he says.

Still, small businesses have been slower to expand their focus from buying insurance to managing risk. Ric Yocke, a consultant in risk management and insurance with the San Francisco office of the accounting firm of Ernst & Young, observes that loss prevention is often a low priority simply because it seems less urgent than most of the day-to-day concerns of running a small business. "I think it's easier for a small company not to address risk management because people wear so many hats," he says. "It's not something that requires immediate attention—until something happens."

A good starting point for a small firm is to consult an insurance agent with experience in the firm's industry, says Sean Mooney, an economist with the New York City-based Insurance Information Institute, a trade association of

property and casualty companies. When asked, agents generally inspect a facility and recommend safety measures. (See "How To Reduce Workplace Risks," on this page.)

"Often, problems arise with the little things that you don't notice," Mooney says.

### Controlling Losses

When a loss does occur, forward-thinking companies find ways to mitigate the damage so they can control the expense. Allegheny Ludlum, a Pittsburgh specialty-steel manufacturer, uses an assertive loss-control program to fortify its program of coordinating safety efforts at various facilities. For instance, the company puts injured employees on the road to recovery quickly by making sure they still feel they are part of the work force. Company representatives visit the employees, reassuring them that their bills will be paid and explaining how to apply for payment. For a serious injury, the company assigns a medical manager to assess the employee's potential for future work and to help the employee return as soon as possible, if only part time.

Getting employees back to work promptly not only cuts down on workers' compensation costs but also helps control other losses as well. They include the supervisor's time in taking care of the injured person, overtime paid to other employees to help out, and loss of productivity if a temporary employee fills the position.

Although Allegheny Ludlum employs nurses to work with injured employees, many companies hire outside firms that specialize in case management.

Companies can set up other post-loss programs to keep costs down. John A. Spies, director of risk management for Harnischfeger Industries Inc., a Milwaukee-based heavy-equipment manufacturer, advises starting loss-control measures as soon as a loss is discovered. "Even while the fire is raging, you can begin to get a salvage crew lined up and make arrangements to re-equip the facility," he says. At the same time, you can arrange to move production off site. "Minimize your down time," he says. "You may be able to get back to production in two weeks instead of two months."

### Financing Losses

With all the risks associated with doing business, no program will eliminate the need to pay claims—possibly very large claims. Instead of just asking how much insurance to buy, however, many companies now ask a broader question: How can we best finance our losses?

The current trend in this area is toward self-insurance, setting aside mon-

## How To Reduce Workplace Risks

Risk managers say the best way to reduce business losses is to reduce risks. This checklist of recommendations for cutting risks is adapted from *ABCs of Accident and Loss Prevention*, issued by Fireman's Fund Insurance Co.

### Public Areas

Do glass doors have safety glass and push bars, and decals to make them noticeable?

Are stairways in good condition and equipped with handrails?

Are walking and working areas kept dry, well lighted, and free of hazards?

Are parking areas and sidewalks well lighted and free of hazards?

### Employee Safety

Are machines in good repair, with all safety shields in place?

Do employees wear personal protective equipment (gloves, eye shields, etc.) where needed?

Are there enough emergency exits? Are they kept clear and properly marked?

Are employees trained in proper use of equipment and safe lifting procedures?

Is there a well-stocked first-aid kit available?

### Fire Prevention

Are sprinklers installed in buildings

with notable fire danger?

Are there receptacles for cigarette butts in smoking areas?

Are flammable liquids, waste materials, and other combustibles stored properly, away from heat?

Are fire extinguishers readily available in the proper number, size, and type? Do employees know how to use them?

Is stock stored neatly on pallets or shelves, off the floor, and away from walls?

Are there enough electrical outlets to avoid gang plugs?

### Vehicles

Are all company vehicles serviced regularly?

Have employees been trained in safe-driving procedures?

### Crime

Are roof openings and windows that are not visible from the street secured with steel bars or metal grates? Is the building well lit after hours?

Does the personnel department check references and previous employment of prospective employees?

Do employees know proper procedures for opening and closing the premises, with two employees present?

Are bank deposits made daily, with varying times and routes?



## INSURANCE



PHOTO: © RICHARD DEWE

*Even while the fire is raging, you can ... get a salvage crew lined up.*

—John A. Spies, Harnischfeger Industries

ey to pay routine claims that the company would have spent on high premiums. In fact, so many firms have moved in this direction that numerous insurance companies, including Aetna Life & Casualty, Continental Corp., and American International Group, now offer claims, loss-control, and engineering services to self-insurers.

The term "self-insurance" can be misleading, though, says Paul Rosenfield, director of accounting standards for the American Institute of Certified Public Accountants. "There's no such thing as self-insurance," he says. "There's only insurance and noninsurance." By definition, he says, insurance is a transfer of risk to another party, but a company that "self-insures" is not transferring the risk. "They're just taking it out of one pocket and putting it in another."

Mona Guercia, risk-management consultant with The Wyatt Co. in Boston, counters that self-insurance is not the same as "going bare." She says that "self-insurance is a formal funding mechanism" with guidelines for setting it up and actuarial studies to show how much money to set aside. Further, she says, almost all companies that self-insure do buy insurance for catastrophes.

Risk-management director Spies of Harnischfeger likes the idea of reducing premiums by absorbing certain losses. For most companies, that generally means agreeing to a higher deductible. "I look at it as loss financing," he says. "You need to either finance that loss internally with a higher deductible and lower premiums or finance it exter-

nally with higher insurance costs."

Whether self-insurance is feasible for a small company depends on the size of the premiums the company normally pays. Ernst & Young consultant Yocke notes that handling routine losses in-house requires careful planning for loss prevention, plus administrative time in paying claims—services that insurers normally provide. Because a company that self-insures must have on its payroll someone who can perform such services, the premium savings may not be enough to cover both losses and administration.

Certainly, self-insurance of any kind requires planning. The North Attleboro Electric Department, in North Attleboro, Mass., a municipal utility with 35 employees, recently launched a self-insurance program. The company set \$500,000 as the primary limit, with excess coverage through the Northeast Public Power Association, a buying coalition for utilities. Barry Port, controller, explains why. "We'd never had a loss in 100 years, except for a bit of vandalism and a transformer that fell off a pole," he says. "Still, we were paying \$65,000 for \$500,000 in coverage." One year the premium soared to \$74,000. "It was becoming ridiculous," he says. Insurers refused to budge, claiming the electric industry was risky. The utility plans to transfer \$100,000 each year into a formal trust restricted for insurance purposes.

**A**troubling vestige of the insurance crisis is the fact that for certain risks such as pollution liability and professional malpractice, major insurers often refuse to underwrite the risk or charge prohibitively high rates. Likewise, entire industries find themselves blackballed as entirely too risky.

What can companies do when they can't obtain insurance? Some simply go without insurance and do all they can to prevent insurable losses. Unable to obtain pollution insurance, the North Attleboro Electric Department launched a prevention program to insulate itself against losses. The utility built containment wells around its substations in case of rupture and trained employees to handle dangerous substances.

Other companies address coverage problems by turning to specialized insurance companies. Missoula attorney Minto helped rural lawyers establish a mutual insurance company to handle malpractice claims. Thousands of lawyers each contributed \$1,000 to provide initial capital. After two years, the Attorneys' Liability Protection Society has become a \$6-million company.

Is it bad business to insure only companies that mainstream insurers consid-

er bad risks? Not necessarily, says Ac-mat's executive vice president, Henry Nozko. "The standard companies consider the entire market we serve as an entirely undesirable, unacceptable risk," he says. Most insurers lack sufficient expertise in the construction business to tell when a company is a good risk, Nozko says. "If you know how to evaluate the risks, you can do it properly," he says.

The growing emphasis on loss prevention and loss control, the movement toward self-insurance, and the increasing number of specialized insurers all show that the insurance industry is no



PHOTO: © ERIC FRIEDMAN—BLACK STAR

*Self-insurance is a formal funding mechanism.*

—Mona Guercia, The Wyatt Co.

longer the first line of defense for many American companies.

Yet even those firms at the leading edges of these developments recognize the need for higher-limit coverage. Especially for small companies, one big lawsuit could spell disaster.

For losses that your company considers routine, however, insurance can be an expensive management tool. Because of the administrative costs of handling multiple claims, insurers tend to charge higher premiums for predictable levels of loss than they do for the unlikely catastrophe—money that could go to handle routine claims in-house. Even when self-insurance or specialty pools aren't feasible, a thoroughgoing program of loss prevention and loss control can reduce the number of claims and the cost of insurance. **MB**



To order reprints of this article, see Page 71.



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Peter Weaver

## TRAVEL

### Phone Ahead To Protect Rental-Car Reservations

When you reserve a rental car at a distant airport, your arrival time and flight number are noted, and you get a confirmation number. But don't let a confirmed reservation lull you into a false sense of security. You may not get the make and model you ordered. You may not get a car at all.



PHOTO: © BRETON LITTLEHALES-FOCUS, INC.

If your flight is delayed because of weather, air-traffic volume, or any other reason, the rental agency may let your car go to another customer.

To improve your chances of having the right car waiting for you when there has been a flight delay, call the rental-car company to change your estimated arrival time.

Be sure that you phone the exact location where you'll be picking up the car. If you don't know the number, you can get it through the company's 800 reservation number.



*Peter Weaver is a Washington-based columnist on personal finance.*

## CREDIT

### Know Your Credit-Card Identification Rights

It can be annoying when a merchant or restaurant asks you to put your phone number on a credit-card slip. You may not want waiters, bartenders, clerks, or anyone else to have easy access to your name combined with your phone number.

Visa, MasterCard, and American Express do not require phone numbers for identification purposes, but merchants and restaurants have gotten into the habit of asking for this kind of identification.

Fortunately, few seem to mind if you say you have a private number and don't give it out.

Others may insist on a phone number. If that happens, you can show your driver's license for identification and threaten to call the company that has issued the card.

In a similar situation, when you write a check, some retailers require your credit-card number on the back. "This practice is discouraged by the bank-card issuers," says Elgie Holstein, director of Bank Cardholders of America, a nonprofit, consumer-education organization with 70,000 members. "With your credit-card number on a check, there's a lot of information that can be used to access your account or apply for credit in your name."

If necessary, you can always show your credit card for identification purposes—but without revealing the card number.

## INVESTMENTS

### Be Wary Of The Hard Sell On Tax-Deferred Annuities

At one time or another you may want to add money to your retirement fund but find yourself at the limit for contributions to an individual retirement account, Keogh, 401(k), or other such tax-deferred investment.

At that stage, you might consider an annuity. You can put any amount you want into an annuity, and the income it generates is tax-deferred with few, if any, limitations.

Some travel and entertainment card companies, banks, insurance companies, and others are touting fixed-rate

annuities with high "teaser" interest rates. One plan has a 12-percent introductory offer and claims that the rate after one year will be pegged 1.5 percent above a major interest index.

But watch out. The "major index," it turns out, is for tax-free bonds and is significantly lower than most money-market indices. You could get a higher return from a certificate of deposit, without all the penalties and restrictions that come with fixed-rate annuities.

Fixed-rate annuities promise a certain amount a month when you retire, but the effective payout keeps decreasing every year because of inflation. Financial planner Alexandra Armstrong, former president of the International Association of Financial Planners, says she likes variable, as opposed to fixed-rate, annuities for supplementing retirement plans. "A variable annuity," Armstrong says, "is really a mutual fund with a tax-deferred wraparound." It can protect you from current taxation and help you build up your retirement account faster.

The companies that sell variable annuities will let you choose a mutual fund that fits your needs. You can get an aggressive stock fund that's riskier but might bring in a greater return over the years. Or you can pick a conservative bond fund, even a money-market fund.

## INSURANCE

### Finding Coverage When You're "Uninsurable"

For those of you who have been branded "uninsurable" or have to pay sky-high rates to get a modest amount of coverage, there are some types of policies that might provide the financial protection you need.

Insurance agent Roger Kessinger, author of *Insurance & Alternatives For Uninsurables*, says you might be able to meet your financial-planning needs with guaranteed-issue life insurance offered by some companies.

"They don't care what you have," Kessinger says, explaining that "you could have cancer, heart problems, diabetes, whatever, and still be insured."

There are limits on what kinds of benefits would be available in the event



of your death, depending on how long you lived. For example, a policy might provide for no more than a full or partial refund of the premiums you paid if you died within the first year of coverage.

If you died during the second year, the policy might give your beneficiaries a portion of the benefits. If you lived three or four years, your beneficiaries might be able to get the maximum amount provided under the policy.

Some insurers, Kessinger says, "will guarantee issue of up to \$100,000 if you are a working person." It's quite expensive—sometimes triple the premiums for regular life insurance—but when you need it, you need it.

People who lend you money like to offer life insurance to cover the loan payments if you die before the full amount has been paid off. This is called credit life coverage, and sometimes it includes insurance to cover the payments if you become disabled and unable to work.

Credit life (and disability) insurance can be arranged when you mortgage your home, take out a home-equity loan, enlist in a college-tuition payment plan, or buy a big-ticket item such as a yacht or a motor home.

Some lenders, but by no means all, will sell you this insurance without requiring a medical exam. "But some of them are getting wise," Kessinger says, "because now they're requiring the filling out of a signed and dated medical questionnaire." If you have some pre-existing condition, they'll refuse coverage.

There are a number of lenders, however, who will offer coverage with no questions asked. You have to shop around.

If you die before the loan is paid off, your heirs can be assured that the rest of the money due will be paid. Then the property can be sold and the proceeds invested in some more liquid asset.

## VACATION TRAVEL

### Cruise News

The hottest thing going in cruise travel right now is the "segmented" around-the-world offer.

"Business people have the money for a cruise vacation," says Andy Spielman, veteran cruise manager for Waters Travel Co. "What they don't have is time."

With the exception of wealthy retirees, few people have the time for an around-the-world cruise or even a three-week cruise. This is why some of the major ship lines came up with the idea of dividing an around-the-world adventure into two-week segments.

A ship starts out from New York, San Francisco, or wherever and heads



PHOTO © ERIC ROSENBERG—FOCUS, INC.

**Don't have time for a long cruise? Try taking one in bits and pieces.**

around the world to exotic ports. You can start off on the first leg and then drop off after two weeks, or pick up the ship in a place like Hong Kong, the Suez Canal, or Naples, for your two-week share. Air fare to and from any given segment port is included in your package price.

For a completely different type of cruise, you might consider a shorter trip, island hopping in the Caribbean. "There will be nine new ships coming into the South Florida area this winter," Spielman says, "and they are huge—room for 2,000 to 3,000 people." These are superdeluxe, bedroom behemoths that offer countless restaurants, bars, casinos, shops—even Broadway musicals. All staterooms are first class in a seagoing resort atmosphere.

Picking just the right cruise for your

vacation needs, your budget, and your allotted time is made much easier if you work through a seasoned travel agent who knows the cruise business inside out.

When you talk to an agent, find out what kind of people generally take the cruise you find interesting. Are they old, young, couples, singles, higher income, lower income, what?

Be sure to find out what's included in the price. Tipping is usually not included, and this can add \$50 to \$75 a week to the cost. But some lines do include a service charge in the fare.

If you are interested in a winter cruise, Spielman warns, "now is the time to find the right ship and get on it." While there is plenty of competition for cruises in general, the best trips are booked up fast.

## PREVENTION

### Protecting Your Property In Hotels And Hospitals

You've seen the signs in hotel rooms that say the management is not responsible for valuables left in rooms and that a safe is available. But what does that really mean?

Sure, everyone knows it's foolish to leave diamonds and other such valuables lying around the room. But what about your laptop computer, portable phone, and wallet? You can't put these things in a hotel safe. You need them for your daily business.

Listen to what *The Family Legal Advisor*, published by Family Library, New York, says on items you must keep handy but won't fit in a room safe:

"Regulations regarding the depositing of valuables with the proprietor for safekeeping do not apply to the clothing and articles which guests normally use daily, nor do they apply to money in

reasonable amounts needed for ordinary expenses. These would normally not be checked and the proprietor may, therefore, still be responsible for them."

Some hotels have tightened security by installing small safes in every room and issuing coded insert cards instead of numbered keys to open room doors.

But the situation is vastly different with hospital rooms. "Room security is a growing problem," says Jan Shulman of the American Hospital Association, "and hospitals always advise patients to leave all valuables at home."

Expensive jewelry and large amounts of cash are obvious items to be left at home. But what about your small cassette player or your laptop computer? You listen to music or dabble on the laptop at your peril. If you feel you really need such bedside accouterments, hide them whenever you leave your room unattended. **NB**



# For Your Tax File

*What you need to know to keep taxes from overtaking you.*

By Gerald W. Padwe, C.P.A.

## INTEREST DEDUCTIONS

### Points On Buying A House

In financing home purchases, lending institutions usually charge "points" to borrowers. A point equals 1 percent of the loan amount and generally is called a "loan-origination fee" or "loan-discount fee." Since points are paid at the beginning of the mortgage period and the lender can use that money for the duration of the loan, the nominal mortgage interest rate can be slightly less than otherwise would be charged.

For tax purposes, payment of points by a borrower is considered prepaid interest. Since the mortgage loan generally is secured by a principal or second residence, the amount paid as points should be fully deductible—without any of the limitations imposed on deducting personal interest.

Nonetheless, there is a tax question: When are the points deductible? A recent Circuit Court of Appeals case helps answer the question and also shows the Internal Revenue Service's tough stance against current deductibility of points.

Two taxpayers bought a principal residence in January 1981 and financed it with a three-year loan secured by the house. The loan had a large balloon payment that would come due in January 1984. In 1982, a home-improvement loan was taken out for an additional amount. In September 1983, the taxpayers obtained a traditional 30-year mortgage and used the proceeds to pay off both outstanding loans. As part of this, the taxpayers paid three points, which they deducted on their 1983 return. The IRS disallowed the deduction.

Prepaid interest is deductible, said the IRS, but only over the life of the loan. An exception to this rule allows current deductibility for points that have been paid if the loan is secured by a principal residence and the points are "in connection with the purchase or im-



**Homeowners** who refinance mortgages to benefit from lower interest rates may find that "points" paid on refinanced loans are not immediately deductible.

provement of" the principal residence.

The IRS held that almost three years after the purchase and a year after the home improvements the 30-year mortgage was not "in connection with" the purchase or improvement of the home but was only to refinance the original loans; thus the points could be deducted only over the life of the mortgage.

The taxpayers appealed to the U.S. Tax Court, which upheld the IRS ruling in an 8-3 decision. However, the 8th Circuit Court of Appeals now has reversed the lower court and the IRS. In a more pragmatic reading of the words "in connection with," the appellate court determined the purpose of the 30-year mortgage was to provide permanent

financing for the home purchase and improvements, which had been supported only by short-term loans. Therefore, the financing was very much "in connection with" the home purchase.

The appeals court decision is binding only in the 8th Circuit. Moreover, the Tax Court, by deciding 8-3 for the IRS, has shown it might still decide against a taxpayer on the same facts if an appeal is heard in a different circuit.

The above case indicates that if a longer-term mortgage has been outstanding for some years and is then refinanced to take advantage of lower current interest, any points paid on the refinancing probably would not be immediately deductible.

## DISPUTED DEFICIENCIES

### Paying Interest Only

The IRS has long maintained that a taxpayer wishing to pay and deduct interest on a disputed tax deficiency had to deposit with the IRS an amount equal to the contested tax. This would not concede any contested issues between government and taxpayer, but without payment of the hypothetical tax, the IRS claimed, there was no "debt" on which interest would be payable and therefore deductible.

A year ago, the Tax Court considered a case in which the IRS sent a taxpayer a statutory deficiency notice, a so-called 90-day letter. The taxpayer decided to

litigate the issue in court and sent the IRS \$7,000 for the accumulated interest on the asserted deficiency. The IRS treated the interest as a partial tax payment and disallowed any deduction. The court, however, ruled in the taxpayer's favor. It allowed the deduction, saying there is no tax requirement that a debt be paid before interest can be deducted; the notice was the government's claim that the taxpayer owed a debt.

Now the IRS has agreed with that Tax Court. If a statutory deficiency notice is issued, an interest payment only will support a current deduction for that amount, even though the underlying tax continues to be litigated. **■**



*Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.*



# Direct Line

*In which experts answer our readers' questions about starting and running their businesses.*

By Meg Whittemore

## RETAILING

### Quilter's Query

I have taught quilting for five years and want to open a quilt shop. I need information on how to get started, how to obtain stock, and whether there are associations for quilters.

*L.L., Valencia, Calif.*

The American International Quilters Association offers numerous publications, books, and seminars on the craft. It also sponsors the International Quilt Festival, a three-day exhibition of quilting, scheduled for Nov. 1-4 in Houston. For more information on the festival and publications, contact the association at 14520 Memorial Drive, No. 54, Houston, Texas 77079; (713) 496-6864.

Madeline Shepperson, owner of Quilt-n-Stuff in Alexandria, Va., and a nationally known consultant on the quilt business, offers a 45-minute telephone



consultation for \$20 on how to open a quilt shop. Her store offers quilting classes, custom quilting, and antique-quilt restoration, and it carries a wide variety of fabrics and supplies. You can call or write Shepperson at Quilt-n-Stuff, 1630 King St., Alexandria, Va. 22314; (703) 836-0070.

## INSURANCE

### B&B Liability

I rent my three-bedroom house to skiers in the winter and operate as a bed-and-breakfast. Where can I get liability insurance for this four-month period?

*E.M., Taos, N.M.*

Renting out rooms in your home means

your home becomes your place of business, says Gerry Arndt of Arndt-McBee Insurance Agency, a Martinsburg, W.Va., firm that insures more than 300 bed-and-breakfasts. "Unfortunately, a standard homeowners policy will not cover you adequately," he says. "Consider taking out a commercial insurance policy that will cover your personal items as well." A commercial policy incorporates liability insurance and costs more than a homeowners policy; the price depends partly on your home's location and construction.

## MANUFACTURING

### Straight Shots

My husband and I would like to get into the business of manufacturing pool cues. How can we get started?

*J.A.C., Milwaukee*

There are about 25 pool-cue manufacturers in the U.S., says Sebastian DiCasoli, executive director of the Billiard and Bowling Institute of America. "The manufacturing of pool cues is very much a cottage industry," he says, and serves a market of just a few million dollars. His organization can send you a free membership list as well as statisti-



cal studies of the industry. Write or call DiCasoli at the institute, 200 Castlewood Drive, North Palm Beach, Fla. 33406; (407) 842-4100.

## THE WORKPLACE

### Worker Feedback

We are considering conducting an employee attitude survey. Where can we obtain books that describe how to do this?

*J.M.S., Charleston, Tenn.*

Useful information on conducting and analyzing an in-house employee atti-

## THIS MONTH'S MOST-ASKED QUESTION

### Recipes, Regulations, And Market Research

Many of you believe your direct line to profitable entrepreneurship begins in your kitchen. This month we focus on the question of what it takes to use your favorite recipe to start your own business.

First, look at the regulations governing food production. For example, if you want to produce and market your favorite salad dressing or barbecue sauce, you must comply with government rules, which will depend on where the ingredients come from and where the product is sold.

All food products must meet local and state regulations. In addition, if either the ingredients or the end products cross state lines, they also must comply with federal regulations, says Ray-

mond Newberry, deputy director of the Division of Regulatory Guidance of the Food and Drug Administration. "The primary purpose is to protect the producer and the consumer from any possibility of the presence of botulism in the food product," he says.

State regulations vary and are handled through the health department or agriculture department within each state government. For more information, call the appropriate office in your state capital.

Local restrictions on food production and marketing should be checked out with your county health department. Have your attorney advise you on whom to contact.

"The manufacturer of the food prod-





tude survey can be found in *How To Conduct Employee Attitude Surveys*, by Sue Ellen Thompson, Toni M. Pristo, and Karen J. Berte. The book, which contains a step-by-step approach to the survey process, costs \$59.95 and can be ordered by writing to Business and Legal Reports Inc., 64 Wall St., Madison, Conn. 06443, or by calling the company at (203) 245-7448.

## FINANCING

### Home-Equity Loans For Firms

We need information on how to use the equity in our home as the immediate source of financing for a business. *A.C., Richmond, Calif.*

Refinancing your home through a home-equity loan or line of credit is a fairly straightforward procedure, says Patrick Thompson, assistant manager with 1st American Bank in Washington, D.C. "Your home must be in your local bank's jurisdiction," he says, "and most banks will be able to tell you within a few days if you qualify." The process

uct should let us know what they are producing just to be sure that every base is covered," Newberry says. For more information, you can contact Newberry at the Food and Drug Administration, 200 C Street, S.W., Washington, D.C. 20204; (202) 485-0187.

It can cost as much as \$100,000 to take a food product from the concept stage to grocers' shelves, says Howard Slackman, founder of the Food Business Institute. The institute, based in Bloomfield, N.J., offers consulting advice on introducing new food products.

"You know that you have a concept—a recipe—that works, but you don't know if you have a product until you have customers," says Slackman. "Think about where you want to sell the product, and do some market research."

Slackman adds: "Only one out of every 40 new food ideas actually gets on the shelf." Some food for thought.

takes three to six weeks, depending on the time required to process your application, conduct a title search, and set up the closing.

## DAY CARE

### The Corporate Nanny

I would like to do some research on corporate day-care centers and would especially like to find out how to start one for my company. *G.T., Miami Springs, Fla.*

About 5,400 corporations offer day-care programs in the U.S., according to the Child Care Action Campaign, a nonprofit organization that helps businesses on day-care issues. Research Director Caroline Eichman says, "During the last decade, we have seen a 400 percent increase in the number of corporate-sponsored day-care programs."

The organization offers a free information packet that contains a publications list, profiles of corporate day-care programs, and materials on subjects such as on-site facilities, flextime, community co-op arrangements, and resource and referral services. Write or call Eichman at the Child Care Action Campaign, 330 Seventh Ave., 18th Floor, New York, N.Y. 10001; (212) 239-0138.

The Family and Work Institute, a



clearinghouse that supplies day-care information to businesses and communities, can give you information on the start-up costs for day-care centers. "Plan 60 to 80 percent of your budget for staff," says the institute's Dana Friedman. For information on state licensing requirements and a publications catalog, write or call the institute at 330 Seventh Ave., New York, N.Y. 10001; (212) 465-2044.

## ENTREPRENEURSHIP

### Starting From Scratch

Please give me any information regarding starting and operating your own business. *D.A., Decatur, Ind.*

(Similar question from K.D., Hillsboro, Ore.)

Many publications and books deal with starting a business. We recommend that you begin with the Small Business Administration's publications list, which contains a number of pamphlets. The SBA covers the basics—where to obtain loans, how to structure an office, tips on working out of your home, how to find an accountant and a lawyer, setting up a corporation, and other mat-



ters. For a copy of the agency's publications list, call the SBA at (800) 368-5855.

Also, contact your local SBA office for a list of seminars and conferences on starting a small business. Robert General heads the Indianapolis office and can be reached at (317) 226-7272; the address is 575 N. Pennsylvania St., Room 578, Indianapolis, Ind. 46204-1584. (In Oregon, contact John Gilman, SBA, 222 S.W. Columbia, Suite 500, Portland, Ore. 97201; 503-326-3441.)

## FRANCHISING

### Finding The Facts

How do I get information on franchising? *T.L.W., Glen Rock, N.J.*

The International Franchise Association's publications list covers a wide range of information on franchising. Contact the association at 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000.

## HOW-TO-ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy. To order, write to the Circulation Department at the address above. **16**



# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

By Marcia J. Pear

## Sniffing Out Allergy Answers

For hay-fever sufferers, the onset of fall means that relief is finally in sight—for a while.

Every year, from the earliest hint of spring until the first hard frost many months later, hay fever—or, to be more formal, seasonal allergic rhinitis—is responsible for more than \$5 billion in lost workdays, doctor visits, allergy testing, and medication. Depending on where you live, the peak pollen period can begin as early as February and last until November. As a general rule, trees pollinate in the spring, grasses in the summer, and weeds from August through October.

At this time of year, ragweed is the most common cause of the dripping nose, sneezing, itching and watery eyes, headaches, and general misery that afflict hay-fever sufferers. If you count yourself among that unfortunate group, take heart. Recent advances in the fields of allergy and immunology hold out new hope.

Here's a rundown of where we stand now in our knowledge of how to cope with allergies:

**Environmental control.** "The best way to treat an allergy is to remove the allergen [the substance that triggers the allergy]," says Dr. H. James Wedner, chief of clinical allergy at Washington University School of Medicine in St. Louis. "Use air conditioners, but remember to keep the filters clean. Keep your windows closed when driving."

When you have allergies, avoiding other irritants becomes critical, Wedner says. "At work, explain to smokers that you have an allergic illness, and ask them to smoke elsewhere."

You may also need to alter your own activities. Although many busy professionals choose to exercise at lunchtime, that is a mistake for the allergy-prone, says Dr. Harold Nelson, staff physician with the National Jewish Center for Immunology and Respiratory Medicine in Denver. "Pollen levels peak around



PHOTO: ©LARRY OLSON-UNPHOTO

**In ragweed season, a noontime jog can mean maximum exposure to pollen.**

midday; that's the worst time for an allergic person to be outdoors, especially doing strenuous exercise."

**Drug therapy.** "As we've come to better understand how allergies affect the body, the focus of treatment has become more localized," Wedner says. "If someone suffers from hay fever, we put the medicine in the nose. If they have asthma, we treat the lungs. If the problem is in the eyes, we prescribe eye drops."

The past five years have seen the development of nonsedating antihistamines, which can't penetrate your central nervous system to cause drowsiness but are effective against allergy symptoms. Two of the most popular prescription antihistamines are Seldane and Hismanal.

Prescription nasal sprays also have gained wide acceptance. Cromolyn sodium, for example, is sold under the trade name Nasalcrom. (It is also sold as an inhaler for asthmatics, under the name Intal, and as eye drops, under the name

Opticrom.) While cromolyn sodium is ineffective against an allergy attack already in progress, it works to suppress symptoms, thereby preventing future attacks.

Another option is topical nasal steroids, which help breathing by reducing inflammation. Since they're not absorbed into the bloodstream, sprays such as Nasalide are considered comparatively safe for long-term use.

**Immunotherapy.** If your suffering is severe, a shot in the arm can boost your immunity—and your morale. Allergy shots are the ultimate preventive approach, since they help raise the body's ability to tolerate the allergen.

For business people, immunotherapy is often a trade-off, says Wedner. "If you're an overtaxed executive who is affected by ragweed for six weeks every summer, it might not be worth your time, inconvenience, and money to submit to 24 weeks of shots in order to get six weeks of relief. On the other hand, if you're devastated by your allergies, shots may be the only treatment that enables you to remain productive."

**Nondrug alternatives.** Allergy sufferers who eschew drug therapies now have another option: an inhalation device known as the Rhinotherm Ultra 2. The Rhinotherm—the literal meaning of the word is "nose heat"—warms water to a constant 110 degrees Fahrenheit, then dispenses it as mist directly into the nasal passages via a hand-held plastic nozzle. In clinical tests, 20-minute treatments twice a week have been shown to alleviate symptoms for up to four days.

Dr. Michael Roberts, a clinical immunologist and a member of the medical board of advisers of the Asthma and Allergy Foundation, has been using the device with his Canoga Park, Calif., patients for the past 10 months. "Allergy treatment can become a pharmaceutical merry-go-round," he says. "The Rhinotherm is a benign alternative to the chronic use of multiple medications. It's not a cure, but a viable addition to other treatments."

With the plethora of new treatments now available, it's a safe bet that many allergy sufferers will soon be breathing easier. **B**

Marcia J. Pear is a San Francisco-based free-lance writer who specializes in health-care issues.



# Franchising

*Baby-boomer franchisees bring ethnic diversity and business experience to the franchise equation.*

By Meg Whittemore

## Marketing To The 1990 Franchise Buyer

Today's franchise buyers are better educated, more experienced in business, and backed by more capital than at any other time in franchising history. And as the 1990s unfold, the demographics point to increased numbers of women, minorities, recent immigrants, and, of course, baby boomers eager to spread their entrepreneurial wings.

That can be good news or bad news to franchisors trying to sell franchises. "Franchise sales efforts have traditionally been aimed at a husband/wife team who have \$75,000 worth of equity in their house and another \$50,000 in liquid capital," says Susan Kezios, founder of Women in Franchising, a Chicago-based association that promotes franchising among women and minorities. "That 'easy-sell' scenario is

## Seminars For Women

Women In Franchising offers one-day conferences for would-be franchisees.

**Oct. 6, St. Louis.** Holiday Inn Airport West. Co-sponsored by the Missouri Dept. of Economic Development and the Minority Enterprise Networking Association. Cost: \$49 for one person; \$89 for two.

**Oct. 20, Milwaukee.** Marc Plaza Hotel. Co-sponsored by the Dept. of City Development, Milwaukee. Cost: \$50 for one person; \$75 for two.

**Nov. 3, Chicago.** Hotel Intercontinental. Cost: \$99 for one; \$150 for two.

Register through Women in Franchising, 175 N. Harbor Drive, Suite 405, Chicago, Ill. 60601; (800) 222-4943.

disappearing," she says. Increasingly, franchisors are faced with reaching the so-called "baby-boom buyer," the group of professionals age 35 to 55 who have business experience, are financially solvent, and want to try their hands at business ownership.

"These folks remain wary of big institutions, a carryover attitude from their protest days in the 1960s," Kezios says. "They are not going to accept a franchise salesperson's claims without documentation." They are looking for competitive advantages and for sales figures that hold up under scrutiny, and they have a "show me" attitude, she says.

In addition, this group is ethnically diverse, with an increasing number of blacks and women. "Franchisors who want to remain competitive this decade can't continue to ignore minorities and women in their franchise sales efforts," says Kezios.

Segmenting the marketplace in order to attract qualified buyers will be the watchword for continued growth. "The number of franchise companies has decreased, and the pool of prospective franchisees is leveling out," says John Reynolds, marketing and public-relations director for the International Franchise Association.

"If you only want to look at white Americans, over 50 years old with over \$50,000 household incomes, you are necessarily limiting the kind of market outreach that you can do," Reynolds maintains.

Kezios says smart franchisors will take a closer look at cluster marketing—figuring out the motivations of prospective franchisees from the baby-boom generation and tailoring the sales pitch accordingly.

"This group has historically opted for change over the status quo and is willing to take risks," she says. Professionalism is important to this age group, and the perception of *managing* a service franchise rather than actually *producing* the service is a critical distinction for franchisors to make, says Kezios.

Finally, "franchisors need to understand that these people are interested in personal development, career independence, and working in a cooperative environment," she says. "These are the

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kind of advertising words I would use if I were a franchisor."

## Mark Your Calendar

The International Franchise Association (IFA), in connection with its 1990 World of Franchising Expo, sponsors educational seminars on how to franchise a business. The seminars are free and cover areas such as the history of franchising, the legal requirements, the pros and cons of franchising, and the development of a franchise system for your business. The seminars include periods for questions and answers.

Two expos, featuring exhibits by about 100 franchises and open to the public (\$5 admission fee payable at the door), are scheduled for the rest of this year:

**Sept. 8-9, Chicago.**  
Chicago Hilton & Towers

**Oct. 27-28, Atlanta.**  
Atlanta Marriott Marquis

For further information on the expos, write or call Barbara Bogle, Blenheim National Franchise Expos, 1133 Louisiana Ave., Suite 210, Winter Park, Fla. 32789; (407) 647-8521.



PHOTO: © DAVID A. WENSTER

**Susan Kezios** introduces women and minorities to franchising.

The U.S. Small Business Administration offers a series of franchise-opportunity workshops throughout September in Iowa, Kansas, Missouri, and Nebraska. The sessions cover "Evaluating Yourself as a Potential Franchisee," "Evaluating and Assessing Franchisor Arrangements," "Sources of Capital," and "Legal Aspects."

Following is the schedule for the September SBA workshop series:

### Iowa

Des Moines, Sept. 8, Park Inn International; (515) 284-4422.

### Kansas

Topeka, Sept. 6, Kaw Area Vo-Tech School; (913) 273-7140.

Wichita, Sept. 8 and 15, Wichita State University; (316) 269-6273.

### Missouri

Kansas City, Sept. 8, Bruce Watkins Cultural Center; (816) 923-6226.

Joplin, Sept. 13, Joplin Public Library; (417) 623-7953.

Kansas City, Sept. 15, Avila College; (816) 942-8400.

Springfield, Sept. 18, Burrell Center; (417) 864-7670.

Independence, Sept. 18, Missouri University Extension Center; (816) 373-5500.

### Nebraska

Lincoln, Sept. 5, University of Nebraska; (402) 221-3604.

Omaha, Sept. 6, Kiewit Conference Center; (402) 221-3604.

Hastings, Sept. 13, Central Community College; (402) 221-3604. **■**

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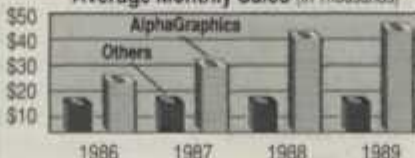
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Average Monthly Sales (In Thousands)



A comparison of the average monthly sales of AlphaGraphics locations to all other quick print franchises over one year old. Source: U.S. Dept. of Commerce, *Franchising in the Economy*, 1986-1988, and AlphaGraphics Uniform Franchise Offering Circular, 1986-1989.

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 The Challenge To Women (# 8801)  
 Changes Ahead For Franchising (# 8798)

City	State	Zip
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# Where I Stand

## This Month's Issue: **TRADE**

Tell us where you stand on trade. Your response gives you a direct voice in the policy-making process of the U.S. Chamber of Commerce and helps us cover this issue.

**Simply fill out the attached postage-paid card or fax this page to us at 202-463-5636.**

### 1. What percentage of your company's revenue results from sales to foreign markets?

- a) 0
- b) 1-10
- c) 11-25
- d) 26-50
- e) 51-75
- f) 76-100

### 2. How long has your company imported or exported goods?

- a) Less than 1 year
- b) 1 to 3 years
- c) 4 to 5 years
- d) More than 5 years
- e) No import/export activity

### 3. Which markets have major sales potential for your company?

(Check all that apply; circle the most promising.)

- a) Canada
- b) Latin America
- c) Western Europe
- d) Eastern Europe/U.S.S.R.
- e) Middle East
- f) Asia-Pacific

### 4. Which factors deter your company from doing more foreign business?

(Check all that apply; circle the most important.)

- a) Shortage of financing
- b) Lack of sales leads
- c) Difficulty in finding agents/distributors
- d) Costs/complexity
- e) Foreign trade barriers
- f) Cannot produce more for export

### 5. From which of these sources did your company seek trade assistance in the past year?

(Check all that apply; circle the most helpful.)

- a) Federal government
- b) State/local government
- c) Industry/trade association
- d) World trade center
- e) National/state/local chamber of commerce

### 6. Would your company like greater access to any of these services?

(Check all that apply; circle the most desirable.)

- a) Specific sales leads
- b) Introduction to agents/distributors
- c) Trade missions
- d) Representation at trade fairs
- e) Trade-potential assessment
- f) One-on-one counseling

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saved the same oil company another \$90,000, for an additional \$45,000 fee, and had total gross fees of over \$200,000.

"This business can be run out of a small office or even a home," says Nancy Freeman, President of PVC. We show our affiliates how to attract as many qualified clients as they can handle. **Just 50 clients per year can net over \$100,000,** and we serve more than 1,500 clients in any given year here in Joliet, a city of only 73,000 people."

PVC has hired motion picture and television personality Eddie Albert as its national spokesman and will send complete details (including names, addresses and phone numbers of other PVC success stories) plus a free videotape to interested persons. Write Rick Neiswonger, PVC Marketing Systems, 12033 Gailcrest, St. Louis, MO 63131 or call Toll-Free (800) 782-1050.

# Classified Ads

## Classified Rates And Information

To place a classified ad CALL TOLL FREE, 800-424-6746 (in Washington, DC call 483-5640) or write Nation's Business Classified, PO Box 1200, Washington, DC 20013. Closing date for advertising is five weeks preceding date of issue. Rates are based on frequency at a per line per insert cost as follows:

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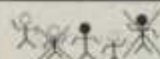
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## COMMENTARY

# Congressional Alert

## Debating The Estate Freeze

Efforts to repeal Section 2036(c) of the Internal Revenue Code are reaching a critical point in Congress. The law, enacted in 1987, eliminates the commonly used estate "freeze" technique for passing a firm to heirs with-



PHOTO: © EVERETT E. JOHNSON—FOLIO INC.

out incurring prohibitively high estate taxes.

It is possible that Congress will consider legislation to repeal or modify Section 2036(c) before adjournment this fall. Therefore, it is crucial for the business community to let lawmakers know how important the repeal of Section 2036(c) is to the survival of family businesses.

The first \$600,000 of an estate is exempt from the federal estate tax, but many small businesses and farms are worth far more. If an estate has insufficient cash to pay taxes, the business may have to be sold.

The Bush administration is working with the House Committee on Ways and Means and the Senate Committee on Finance to develop a gift-tax replacement for Section 2036(c). The U.S. Chamber of Commerce is reviewing reform proposals but continues to support repeal of Section 2036(c) as the first step in any reform effort.

Contact your representative and senators, and urge support for repeal of Section 2036(c).

## Immigration Sanctions

Sanctions against employers for violations of the 1986 immigration-reform law have placed a significant burden on U.S. firms. S. 2797, sponsored by Sens. Orrin Hatch, R-Utah, and Edward M. Kennedy, D-Mass.,



PHOTO: © DAVID FALCONER—FOLIO INC.

and H.R. 5185, sponsored by Rep. Edward R. Roybal, D-Calif., include provisions to repeal these sanctions.

Employers face severe criminal and civil penalties if they hire workers ineligible for U.S. employment. Fear of such sanctions, according to a recent federal report, is creating a pattern of discrimination by overly cautious employers who decline to hire eligible workers because their appearance or accent suggests they are foreign. Ironically, those same employers may now face penalties for engaging in discrimination.

While the U.S. Chamber of Commerce shares in the public concern for adequate control of the nation's borders, it strongly believes that employers should not be treated as enforcement agents in that effort. The Chamber supports the removal of all provisions designed to penalize innocent employers rather than intentional violators (i.e., illegal aliens seeking work in the U.S.).

Contact your representative and senators. Urge repeal of sanctions against employers.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Social Security's Earnings Test

Legislation to eliminate the Social Security earnings test for older workers has been introduced in Congress. If enacted, H.R. 2460/S. 2159 would greatly help employers to retain experienced workers.



PHOTO: © BOB JAFFE—FOLIO INC.

Current law imposes a limitation on the wages that workers age 65 to 69 can earn without forfeiting a portion of their Social Security benefits. Such workers are subject to a benefit reduction of \$1 for every \$3 of earned income above \$9,360 annually. No such limitation applies to people 70 or over. For many older people, the limitation serves as a disincentive for employment.

The Department of Labor projects that the number of new jobs created will exceed the growth in the labor force in the 1990s. At the same time, many firms are faced with the need to retain experienced workers as job requirements become more complex.

The U.S. Chamber of Commerce believes that participants in the Social Security system should not be penalized if they choose to remain as productive members of the work force. Elimination of the earnings test would have a positive impact for employers and older workers alike.

Contact your representative and senators. Urge support for H.R. 2460 and S. 2159. ■



# Editorial

## It's Time To End The Rip-Off Of Federal Trust Funds

As a well-off, caring parent, you plan to leave your fortune to your children. But you decide here and there to spend it on yourself, and soon it's gone.

You don't ignore your heirs, however. You recognize that you have borrowed this money from their legacy, and you scrupulously commit yourself to repayment.

You write IOUs for the money as you spend it, putting them in a safe-deposit box in place of your vanished assets. You even pay interest—by writing more IOUs. Your children should then be assured that you have indeed provided generously for them.

Preposterous? Of course it is. It's also an accurate depiction of one of the more preposterous things the federal government does under what passes for fiscal policy.

Here's how that procedure works in the real world of Washington finance: The safe-deposit boxes are the trust funds established to assure that tax collections earmarked for specific purposes are actually spent for those purposes—Social Security, highway construction, the air-travel system, for example. If revenues for those and other designated areas exceed spending in a given year, the surpluses are supposed to be kept in the trust funds until needed.

Federal ledgers show that most of the trust funds have massive balances—\$200 billion in Social Security reserves and nearly \$30 billion in various transportation accounts.

But these safe-deposit boxes are filled with IOUs. The federal government spent the excess cash in ways having no connection with the purpose of the various programs, leaving the trust funds with government paper.

Says William K. MacReynolds, an economist for the U.S. Chamber of Commerce and an authority on the trust-fund arrangement: "Instead of consisting of money salted away for future use, these funds have nothing of value in them and never will. . . . A fiscal sleight of hand is going on here. There is a difference between individuals' holding government bonds and the government's holding its own bonds."

Under federal law, the trust funds may invest only in the special government securities that exist for the sole purpose of allowing the Treasury Department to substi-



PHOTO © RUSAN GREENWOOD—GAMMA LIAISON

**Retirees** who view Social Security trust funds as money in the bank could be in for a surprise.

tute IOUs for the cash in the trust-fund surpluses.

While individuals holding government debt can sell those securities to acquire cash, MacReynolds points out, there is no market for the paper the government issues to itself when it spends trust-fund money.

"The notion that tax dollars can perform double duty lies at the heart of the deception about trust funds," the Chamber economist says of the practice of spending the surplus funds. "Taxes cannot simultaneously be spent by the government for general purposes and held as an 'asset' on the books of spe-

cial funds."

The reality is that there are no assets. When the need for money credited to the trust funds arises, the government has to raise it through taxes or borrowing, the same way it raises money for all federal purposes that don't operate under the facades of trust funds.

The only distinction is that the government has made a commitment to spend an amount equal to the alleged surpluses in the dedicated trust funds. To meet that commitment, money must be raised a second time to replace that originally collected and spent for purposes other than those for which it was earmarked.

The problem does not lie in the concept of the trust funds themselves. In theory, earmarking some revenues for specific purposes can impose a discipline otherwise lacking in government, assuming they are committed to a valid public purpose.

But that arrangement is corrupted in practice when government spending becomes so uncontrolled that it must resort to deception—taking money from individuals under the guise of placing it in trust funds for specific purposes and then spending it immediately on whatever else.

The answer lies in keeping outgo in reasonable balance with income, so the federal government is not under constant pressure to engage in such tactics as raiding the trust funds to feed the spending monster.

The present deception surrounding the purpose and status of the trust funds must end. Americans concerned about maintaining the integrity of the trust funds should convey that message to their elected officials. ■



# Free Spirited Enterprise

By Janet Lowenstein

## POTABLE SALES

Companies looking for ways to get their names known in the marketplace can now bottle them.

**U & I Design**, of Bellevue, Wash., creates wine labels for pun-loving wine lovers. The firm's more than 30 decorative, adhesive-backed labels, called Cellarbrations Bottle Cards, can be stuck over the original labels and can be removed easily. The bottle cards let you express thanks (Thanks Semillon),



friendship (Palomine), and some sentiments that defy description (Grumpello, Bored, and Rusti Spumante). Fill in blanks on the cards to show whom the wine is for and, if you dare, from.

**Best Regards Inc.**, of San Diego, offers gift bottles of premium California wine and champagne with customized labels. A typical label gives the name and logo of the gift-giving company, the type of wine, and a personal message. If you want to make the gift complete, you can send wine or champagne glasses with the gift bottles. And if your associates like to eat as well as drink, culinary treats can be sent with the wine.

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## VIDEO SPOTS

With some companies, getting known means getting into the movies.

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full day. Alm sells starter kits that explain how to become a licensed dealer.

## IT TAKES THE CAKE

An idea from Scott Berg may make your contracts more palatable.

An article in **Publishers Weekly** magazine says Berg signed a seven-figure contract with the Putnam Berkeley Group for a biography of Charles Lindbergh. A letter



of agreement has the company's CEO, Phyllis Grann, make a chocolate cheesecake for Berg every year while he works on the book.

If the cakes live up to their reputation, Berg may never stop writing.

## THEY'RE THE TOPS

For everyone who likes to eat on the go, **Total Top Inc.**, of Dallas, makes a stretchable lid that covers cups, cans, jars, boxes, and packages. The lid, called Total Top, is made to fit containers with openings from 3 inches to more than 6 inches. The manufacturer says Total Top works with paper, plastic, and plastic-foam cups and containers; it can be pierced for a straw hole or steam vent; and it holds

up from freezer to microwave.

A new hit in food-to-go is an old favorite—Spam.

**Austin Street Market**, of

San Jose, Calif., is offering 12-packs of SPAM in its catalog of upscale food products. Doug Atkinson, vice president of operations for Austin, a subsidiary of Geo. Hormel & Co., the parent company of SPAM, says Austin offered the gift pack as a tongue-in-cheek item in its Christmas catalog.

Now that customers are eating it up? It's there to stay, says Atkinson.





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